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Canada, Railways and Shipping,
Standing Committee, 1940

SESSION 1940

HOUSE OF COMMONS

-R17 (STANDING COMMITTEE)

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

Land 18 Report

THURSDAY, JUNE 27, 1940

THURSDAY, JULY 4, 1940

WITNESSES:

Mr. S. J. Hungerford, President, Canadian National Railways.

Mr. T. H. Cooper, Comptroller, Canadian National Railways.

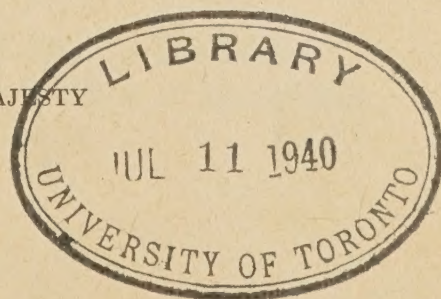
Mr. W. M. Armstrong, Assistant Chief of Research and Development, Canadian National Railways.

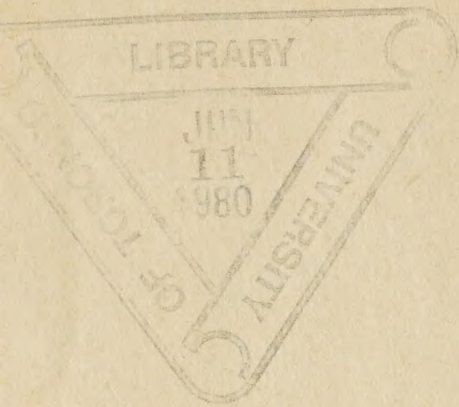
Mr. O. A. Matthews, Auditor, George Touche & Co.

Mr. D. B. Colyer, Vice-President, Trans-Canada Air Lines.

Mr. W. F. English, Assistant to Vice-President, Trans Canada Air Lines.

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1940





MEMBERS OF THE COMMITTEE

J. P. HOWDEN, *Chairman*

Messieurs:

Bercovitch	Howe
Black (<i>Cumberland</i>)	Jackman
Bradette	Lapointe (<i>Lotbinière</i>)
Donnelly	Lockhart
Dubuc	MacInnis
Emmerson	McCulloch
Ferland	Maybank
Gray	Parent
Hansell	Ross (<i>Middlesex East</i>)
Hanson (<i>Skeena</i>)	Sanderson
Harris (<i>Danforth</i>)	Sissons—23.
Howden	

J. P. DOYLE,
Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS,

THURSDAY, June 20, 1940.

Resolved,—That Standing Order 63 of the House of Commons, relating to the appointment of standing committees of the House, be amended by adding to the standing committees of the House for the present session a standing committee on railways and shipping owned, operated and controlled by the Government, to which will be referred accounts and estimates and bills relating thereto of the Canadian National Railways, The Canadian National (West Indies) Steamships, and Trans-Canada Air Lines for the present session, for consideration and report to the House; provided however that nothing in the resolution shall be construed to curtail in any way the full right of discussion in Committee of Supply; and that the said committee consist of: Messrs. Bercovitch, Black (Cumberland), Bradette, Diefenbaker, Donnelly, Dubuc, Ferland, Gray, Hansell, Hanson (Skeena), Harris (Danforth), Hill, Howden, Howe, Lapointe (Lotbiniere), Lockhart, MacInnis, McCulloch, Maybank, Parent, Ross (Middlesex East), Sanderson, Sissons.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

THURSDAY, June 27, 1940.

Ordered,—That the Standing Committee on Railways and Shipping owned, operated and controlled by the Government, be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

THURSDAY, June 20, 1940.

Ordered,—That the Estimates on Railways and Shipping included in the Main Estimates for 1940-41 tabled in the House on May 23, 1940, be referred to the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

THURSDAY, June 27, 1940.

Ordered,—That the said Committee be empowered to print, from day to day, 500 copies in English and 200 copies in French, of its Minutes of Proceedings and Evidence, and that Standing Order 64 be suspended in relation thereto.

Ordered,—That the said Committee be empowered to sit while the House is sitting.

Ordered,—That the quorum of the said Committee be reduced from 12 members to 8 members.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

FRIDAY, June 28, 1940.

Ordered,—That the Annual Budget of the Canadian National Railways and Canadian National Steamships, Tabled to-day, and the Annual Report laid on the Table of the House, on May 17, 1940, be referred to the said Committee, together with the following Votes:—

445—Maritime Freight Rates Act, Canadian National Railways, Eastern Lines.. . . .	\$ 2,000,000
446—Maritime Freight Rates Act, Railways other than Canadian National Railways.. . . .	800,000
458—Canadian National (West Indies) Steamships, Limited, Capital advanced.. . . .	21,000
459—Canadian National Railway Company.. . . .	15,000,000
460—Prince Edward Island Car Ferry and Terminals.. . . .	327,000

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

FRIDAY, July 5, 1940.

Ordered,—That the name of Mr. Emmerson be substituted for that of Mr. Hill on the said Committee.

Ordered,—That the name of Mr. Jackman be substituted for that of Mr. Diefenbaker on the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORTS TO THE HOUSE

JUNE 27th, 1940.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, begs leave to present the following as a

FIRST REPORT

Your Committee recommends,—

1. That it be empowered to print, from day to day, 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that standing Order 64 be suspended in relation thereto.
2. That it be empowered to sit while the House is sitting.
3. That the quorum of the Committee be reduced from 12 members to 8 members.

All of which is respectfully submitted.

J. P. HOWDEN,
Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, June 27, 1940.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met this day at 11.00 o'clock a.m.

Members present were: Messrs. Black (*Cumberland*), Bradette, Donnelly, Ferland, Hansell, Hanson (*Skeena*), Howden, Lockhart, MacInnis, McCulloch, Parent, Ross (*Middlesex East*) and Sanderson (13).

Nominations for Chairman having been requested, Mr. Ross (*Middlesex East*) moved, seconded by Mr. Ferland, that Mr. Howden be elected Chairman. There being no other nominations, Mr. Howden was unanimously elected. He took the Chair and thanked the Committee for the honour conferred upon him.

Mr. Hanson (*Skeena*) moved, seconded by Mr. McCulloch,—

That the Committee ask leave to print, from day to day, 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto—Carried.

Mr. Ferland moved, seconded by Mr. Hanson (*Skeena*),—

That the Committee ask leave to sit while the House is sitting.—Carried.

Mr. Bradette moved, seconded by Mr. Donnelly,—

That the quorum be reduced from 12 members to 8 members.—Carried.

On motion of Mr. Lockhart the Committee adjourned at 11.40 a.m. to meet again at the call of the Chair.

THURSDAY, July 4, 1940.

The Standing Committee on Railways and Shipping met this day at 11.00 o'clock a.m. Mr. Howden, the Chairman, presided.

Members present were: Messrs. Bercovitch, Black (*Cumberland*), Donnelly, Ferland, Gray, Hansell, Hanson (*Skeena*), Howden, Lapointe (*Lotbinière*), MacInnis, McCulloch, Ross (*Middlesex East*), Sanderson, and Sissons—(14).

In attendance were:—

Mr. S. J. Hungerford, President, Canadian National System;

Mr. R. C. Vaughan, Vice-President, Canadian National Railway System;

Mr. T. H. Cooper, Comptroller;

Mr. W. M. Armstrong, Ass't Chief of Research and Development;

Col. V. I. Smart, Deputy Minister of Transport;

Mr. A. V. Franklin, Railway Auditor, Department of Transport;

Mr. O. A. Matthews, representing George A. Touche & Co., Auditors;

Mr. D. B. Colyer, Vice-President, Trans-Canada Air Lines;

Mr. W. F. English, Ass't to the Vice President, Trans-Canada Air Lines; and

Mr. C. P. Edwards, Chief of Air Service, Department of Transport.

The Committee took under consideration the reports of the Canadian National Railway System, the Canadian National (West Indies) Steamships, Ltd., the Trans-Canada Air-Lines, the report of George A. Touche & Co., Auditors and the Canadian National Railways securities Trust.

On motion of Mr. Donnelly the Committee adjourned at 12.50 p.m. to meet again at 4.00 p.m. this day.

The Committee met again at 4.00 p.m. Mr. Howden, the Chairman, presided.

Members present were: Messrs. Bercovitch, Black (*Cumberland*), Donnelly, Ferland, Hansell, Hanson (*Skeena*), Howden, Lapointe (*Lotbinière*), Lockhart, McCulloch, Ross (*Middlesex East*), Sanderson and Sissons.—(13).

The Committee continued consideration of the above mentioned reports.

At the request of Mr. Hansell, the officials in attendance were introduced to the Committee.

On motion of Mr. Ross (*Middlesex East*), the Committee adjourned at 5.50 p.m. to meet again at 8.00 p.m. this day.

The Committee met at 8.00 p.m. Mr. Howden, the Chairman presided.

Members present were: Messrs. Bercovitch, Black (*Cumberland*), Donnelly, Ferland, Gray, Harris (*Danforth*), Howden, Howe, Lapointe (*Lotbinière*), Lockhart, McCulloch, Maybank, Ross (*Middlesex East*), Sanderson, and Sissons.—(15).

The Committee continued consideration of the above mentioned reports.

On motion of Mr. Harris,—

Ordered: That officials of the Post Office Department be in attendance at the next meeting to give information respecting air-mail contracts.


Mr. Lockhart moved:

That the administrative costs and the salaries of officials and employees of the Trans-Canada Air Lines be given to members of this Committee *in camera*.
—Carried on division.

The Committee therefore went into *camera*.

On motion of Mr. Gray, the Committee adjourned at 10.05 p.m. to meet again on Tuesday, July 9th, at 11.00 a.m.

J. P. DOYLE,
Clerk of the Committee.



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MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

July 4, 1940.

The Standing Committee on Railways and Shipping met at 11 a.m. The Chairman, Mr. J. P. Howden, presided.

The CHAIRMAN: Gentlemen, the purpose of this committee, as I understand it, is briefly to consider the budget of the government-owned railways, shipping and airways. A good many of the former members of the committee have passed away with changes in the house, but there are enough of them left to carry on pretty well. Owing to the nature of the session and one thing and another I do believe it is desirable, without unduly abbreviating anything, to get through with the work as rapidly as possible.

I understand that there has been a regular, shall I say, sequence to the business at former sittings of the committee. It has been the habit in the past to consider first of all the annual report of the Canadian National Railways system. The committee is in your hands. If this agrees with the wishes of the committee we shall proceed along these lines, and we shall follow the report as one of the officers of the company reads it for us.

Mr. Armstrong will read the report.

Mr. ARMSTRONG:

CANADIAN NATIONAL RAILWAYS

MONTREAL, 19th March, 1940.

The Honourable C. D. HOWE,
Minister of Transport,
Ottawa.

SIR,—In conformity with sections 14 and 15 of The Canadian National—Canadian Pacific Act, 1936, the Board of Directors submit the following report of the operations of the Canadian National Railways for the calendar year 1939:—

RESULT OF OPERATIONS

Operating revenues	\$203,820,186 62	\$182,241,722 93	\$21,578,463 69
Operating expenses	182,965,768 18	176,175,311 78	6,790,456 40
Net operating revenue	\$ 20,854,418 44	\$ 6,066,411 15	\$14,788,007 29
Net of other income and profit and loss requirements	10,219,395 11	9,615,459 68	603,935 43
Net available for interest	\$ 10,635,023 33	\$ 3,549,048 53	\$14,184,071 86
Interest on funded debt held by public	49,814,377 90	49,839,022 58	24,644 68
Interest on Government loans	916,165 01	926,124 86	9,959 85
Cash deficit	\$ 40,095,519 58	\$ 54,314,195 97	\$14,218,676 39

The CHAIRMAN: I may say for the benefit of the committee the reader may be interrupted at any point to consider any matter that appeals to members.

Mr. ARMSTRONG:

Operating Revenues

Operating revenue totalled \$203,820,187, an increase of \$21,578,464, or 11·84 per cent over the preceding year. The total for the year was the highest of any

year since 1930. It would be a mistake to attribute all of the increase in traffic to the war: the increase was progressive throughout the year. In the first quarter the total revenue was about equal to that of 1938, after which the quarterly increases were 11·9 per cent, 14·7 per cent and 18·6 per cent. The increase on the lines of the company in the United States was 19·9 per cent and on the lines in Canada 10·5 per cent.

Revenue from the transportation of freight increased \$20,485,407, or 14·6 per cent. A statement of the tonnage handled, by commodities, appears on pages 24 and 25 of this report. Grain tonnage increased 1,437,554 tons, the 1939 wheat crop being larger than any previous crop except that of 1928. Substantial increases were also reflected in anthracite and bituminous coal, lumber, iron and steel, motor vehicles and parts, and other manufactured commodities.

Passenger revenue decreased 1·5 per cent. Mail revenue increased 1·4 per cent. Express revenue increased 13·4 per cent. Commercial telegraph revenue decreased 3·8 per cent.

Operating Expenses

Operating expenses totalled \$182,965,768, an increase of \$6,790,456, or 3·85 per cent. This is a moderate increase when viewed in relation to the increase in operating revenues of \$21,578,464. The operating ratio was 89·77 per cent, the best since 1929. Most of the increase was in maintenance and transportation expenses, and was necessitated by the increase in traffic. Expenditures for maintenance of property and equipment increased \$3,724,000, or 4·93 per cent, while transportation expenses increased \$2,679,000, or 3·11 per cent. The property and equipment have been adequately maintained. The ratio of transportation expenses to revenues was the most favourable since 1929. This operating result was attained notwithstanding an additional snow removal expense of \$357,000, a larger provision for equipment retirements of \$583,000, an increase in the pension roll of \$222,000, wage adjustments costing \$622,000, and the cost of protective services necessitated by the war amounting to \$433,000.

Mr. BERCOVITCH: Would it not be well for us to discuss this report paragraph by paragraph as it is being read, because if the gentleman is going to read the whole report, in the end we shall have nothing further to do but to adopt it?

The CHAIRMAN: I think the committee is at liberty to cut in any time they wish.

Mr. BERCOVITCH: I do not want to interrupt, but I think it would be more advantageous for the committee to discuss the report clause by clause. At the end of a clause if there is any discussion or any question to put I think we ought to adopt that as the policy of the committee. If we did that it would be much more advantageous, because as all this is read I am sure a great deal of it will be forgotten by the time ten or twelve pages have been gone over. Then, if we want to put any questions we have to go back again.

Mr. Ross: There is not much to read if the tables are left out.

Mr. BERCOVITCH: I am merely throwing out the suggestion.

The CHAIRMAN: I think in the past the reading has proceeded right along and then questions were asked.

Mr. BERCOVITCH: Would there be any explanation for the—

The CHAIRMAN: What is the wish of the committee in this regard? Shall we proceed as we have been doing? There is a lot of ground to cover.

Mr. MACINNIS: After the official has read a paragraph, if he paused and asked if there were any questions to put to him, I think we should get along very well.

The CHAIRMAN: All right. Are there any questions so far as we have gone?

Mr. BERCOVITCH: Is there any explanation for the passenger revenue decrease? There seems to have been a decrease to a very slight extent. Is there any explanation for that? Can you give the committee any explanation for that decrease?

Mr. ARMSTRONG: The passenger revenues are approximately equal to the year before, being down 1·5 per cent; that is, about \$280,000 in about \$18,000,000. The number of passengers carried is approximately the same. The decrease being 1·4 per cent, and the passenger miles are down 1·8 per cent.

Mr. BERCOVITCH: I know these are the figures given. Have you in mind any particular reason why there should have been a decrease? I agree it is a small amount, but can you tell us why there should have been a decrease? There was an increase in all other branches, traffic and so on. Was the decrease in the passenger income due to competition?

Mr. DONNELLY: Air mail.

Mr. ARMSTRONG: There are a number of factors which affected passenger traffic. One, of course, is the private automobile—the bus did not affect it as much. To some extent, at any rate, the air lines also affected rail passenger traffic.

Mr. DONNELLY: Bus services?

Mr. ARMSTRONG: Bus services to some extent, yes. The private automobile, I would say, would be the main reason.

Mr. BERCOVITCH: It would not be due to any inferiority in equipment?

Mr. ARMSTRONG: No. The equipment in 1939 was better than it was in 1938. Our rail services would be, if anything, better. It was not due to the rail transportation services depreciating.

Mr. McCULLOCH: I would think the air lines have something to do with it.

Mr. ARMSTRONG: Air lines have had some effect.

Mr. DONNELLY: Was there any increase in the mileage that you carried per individual?

Mr. ARMSTRONG: No, almost exactly the same. Our average during 1939 was 86·3 and 86·7 in 1938, so it is practically the same, very slightly down.

Mr. BERCOVITCH: You say the operating expenses have increased by \$6,790,000. You mentioned this as a modest increase. That may be a very moderate sum—

Mr. HUNGERFORD: That has to be considered in relation to the volume of business we carry. The volume increased to the extent of \$21,000,000.

The CHAIRMAN: The explanation is given at the foot of the page.

Mr. SANDERSON: You say here that wage adjustments cost \$622,000. What is the explanation for that?

Mr. HUNGERFORD: I think that the major factor was an increase in the rate for common labour. There were some restorations of the reductions that had been in effect before. They were more or less progressive but last year caught the tail end.

Mr. GRAY: There is an increase shown in the pension roll of \$222,000. Are you insisting now that the men be retired positively on retirement age? Are there any exceptions to that?

Mr. HUNGERFORD: I did not quite get that.

Mr. GRAY: Are you insisting they retire at retirement age and no exception granted?

Mr. HUNGERFORD: That has been the rule but under war conditions there are some few exceptions.

Mr. HUNGERFORD: That has been the rule but under war conditions there are some few exceptions.

Mr. GRAY: I have been a member of this committee for some time. This is an old subject to me. For years I have tried to convince the officials that when these men reach retiring age they should be retired without any exception being made. Subject to the war is that the final rule now?

Mr. HUNGERFORD: Under war conditions I do not think we can say positively that anything is unchangeable; but it is the general rule, yes.

Mr. HANSELL: Would not that largely depend on the time that a man has been with the company? A man doesn't always receive a pension when he reaches retiring age.

Mr. DONNELLY: What is the retiring age?

Mr. HANSELL: Sixty-five.

Mr. HUNGERFORD: The retiring age is sixty-five.

Mr. HANSELL: It may so happen that a man has been working fifteen or twenty years and is not eligible for a pension.

Mr. DONNELLY: How many are in the employ of the company now over sixty-five? Have you any idea of that?

Mr. COOPER: Our employees, speaking broadly, are all retired at age sixty-five. I have in mind about six people whose service has been extended beyond the age of sixty-five. It is practically negligible.

Mr. GRAY: This brings up the further question—and I think we may as well deal with it now—as to these men who are retired on pensions, some of them on very large pensions, taking other employment. What is the policy of the company with respect to them, especially men who are retired on pensions say of \$5,000 a year, taking other employment?

Mr. HUNGERFORD: Permission has been granted in some cases.

Mr. GRAY: Why?

Mr. HUNGERFORD: Sometimes they are needed and sometimes it gives them an opportunity to earn a little something extra.

Mr. BERCOVITCHS: There really would not be any harm in that.

Mr. HUNGERFORD: They have to get permission.

Mr. BERCOVITCH: I think the amount of pension that is paid is really his own money, when you boil it all down.

Mr. GRAY: Having regard to the war effort, do you not think that men who are receiving large pensions might become dollar a year men instead of being otherwise employed?

Mr. HUNGERFORD: Well, that is a matter of opinion. I do not know. It all depends on what they are doing.

Mr. SANDERSON: You are referring to officials, are you, Mr. Gray?

Mr. GRAY: Yes. I do not mind saying who I have in mind. I have in mind Mr. W. A. Kingsland, who was general manager of the central region and who must be receiving a very large pension, and who is employed now as lobbyist or whatever you may call it for the Dufferin Construction Company.

Mr. HUNGERFORD: Mr. Kingsland last winter asked for permission to engage temporarily in work. That permission was given. Since then I understand the situation has changed quite materially and he is occupying a more responsible position, but I am informed he is carrying on work for some government agency. The property has been taken over, so I understand. Mr. Kingsland is assisting in the administration.

Mr. GRAY: What is his pension?

Mr. HUNGERFORD: I do not know that I can tell you at the moment.

Mr. COOPER: I can get that for you.

Mr. HUNGERFORD: I think it is about \$6,000.

Mr. BERCOVITCH: How long was he with the company before he was on pension?

Mr. HUNGERFORD: Again I am speaking from memory, but I think about thirty-eight years, as far as I can remember.

The CHAIRMAN: Gentlemen, I have a suggestion to make. My hearing is not very good, and I understand that Mr. Hungerford is having a little difficulty. Some of the interrogations are hardly getting across. I would ask members to speak just a little louder.

Mr. BERCOVITCH: I promise to speak louder, Mr. Chairman.

Mr. MACINNIS: Would Mr. Hungerford speak a little louder. We cannot hear him over here.

Mr. HUNGETFORD: I will try to do that.

Mr. GRAY: You say that permission is rarely granted, that it is only on special occasions that the officials who are on pension are granted the right to take other employment?

Mr. HUNGERFORD: Yes.

Mr. GRAY: Exceptional circumstances.

Mr. SMART: You understand the situation with respect to the Dufferin Construction Company, do you Mr. Gray?

Mr. GRAY: I do now, at the present moment. I did not prior to a few months ago.

Mr. SMART: The voting shares of that company belong to you know who.

Mr. GRAY: Quite.

Mr. SMART: That was sequestrated by the custodian, so that at the moment the Dufferin Construction Company common shares are in the hands of the government.

Mr. GRAY: Quite. But you cannot get around it in that way, Mr. Smart. Mr. Kingsland took employment long before there was sequestration by the government.

Mr. SMART: No. I am not speaking of Mr. Kingsland's relationship. I just wanted to know whether you understood about the Dufferin Construction Company which is performing work for us at the minute, is really in the hands of the government as an institution.

Mr. GRAY: At the present moment.

Mr. SMART: Yes, at the present moment.

Mr. DONNELLY: It does seem to me to be very unfair that a man should be getting a pension from the government at \$6,000 a year and still be employed by the government and getting a wage as well.

Mr. McCULLOCH: What was his salary before he got the pension, roughly?

Mr. SMART: \$18,000, I think.

Mr. HUNGERFORD: \$16,000 or \$17,000; somewhere thereabouts.

Mr. McCULLOCH: A man like Mr. Kingsland who had been living on a salary of \$15,000 or \$16,000, would find it pretty hard to live on \$6,000 a year.

Mr. HUNGERFORD: I gathered from my conversations with Mr. Kingsland that he was very anxious to have something to do, that time dragged a great deal on his hands. He had always been very active and he was rather unhappy at not having anything to do.

Mr. DONNELLY: There is a great opportunity for him to do work at a dollar a year like a great many others are doing at the present time in the war effort. He has a pension of \$6,000 a year.

Mr. BERCOVITCH: Was he ever asked to contribute his services towards the war? In principle, Mr. Chairman, it seems to me that a man earns his pension, and he is not placed on pension unless the government feels or has thought that he has contributed services over the period of his employment that entitle him to his pension. In other words, it would be just as if a certain amount had been deducted from his salary weekly or monthly, which had accumulated; and at the end of thirty years he would be entitled to so much money. I think that is the general principle, as far as I am concerned.

The CHAIRMAN: You think his time is his own.

Mr. BERCOVITCH: His time is his own after that. I do not know the gentleman at all. I never heard of him before today. But if he were asked to do any war work and refused to do it, I think it would come with very bad grace from him; but I doubt very much if he would. He probably would be very glad to do it.

The CHAIRMAN: Do you want to let this point pass now or do you want to reserve it?

Mr. BERCOVITCH: It really does not matter. I do not think we should waste too much time on it, unless Mr. Gray wishes to say something further.

Mr. GRAY: No, I have nothing further.

Mr. MACINNIS: Could the committee have a list of the persons receiving pensions who are otherwise engaged, particularly in government business or for the railways?

The CHAIRMAN: We will make a note of that.

Mr. HUNGERFORD: We can have that.

The CHAIRMAN: All right. I think we will proceed.

Mr. ARMSTRONG: I shall commence at the top of page five.

Other Income and Profit and Loss Requirements

The accounts in this group increased \$603,935 over 1938. The increase was due to the larger provision made in the accounts for the retirement of miscellaneous structures, sidings, etc., which have been retired from service and not replaced.

Taxes amounted to \$7,095,147 compared with \$6,946,873 in 1938. These figures are exclusive of sales tax added to the cost of material, which amounted to \$3,171,500 in 1939.

The revenues from hotel operations increased \$186,629 over 1938, and after meeting operating expenses and taxes the net operating income was \$302,363, an increase of \$76,350 over 1938.

The CHAIRMAN: Are there any questions? I take it that the increase in revenue came from the Chateau Laurier?

Mr. ARMSTRONG: Not altogether.

Mr. BERCOVITCH: They got some of my money.

Mr. HUNGERFORD: The Nova Scotian did pretty well and Jasper Park Lodge did better.

The CHAIRMAN: How about your big hotel at the coast?

Mr. HUNGERFORD: Well, that was only in service from May 25.

The CHAIRMAN: Yes. Then we shall go on to the next paragraph.

Mr. ARMSTRONG: The next is "Interest Charges".

Interest Charges

The total requirements for interest on funded debt held by the public in 1939 were \$49,814,377, being \$24,645 less than in 1938.

Interest payments to the Government on temporary loans for capital purposes were \$916,165, being \$9,959 less than in 1938.

It is of interest to note that from 1932, when the present practice was adopted of financing capital requirements by issue of railway securities to the public, the capital debt of the railway (including temporary Government loans) has been increased by \$32.3 millions, an average increase during the eight year period of \$4 millions per annum. In this period the railway has made new public issues aggregating \$319 millions but has retired other public issues aggregating \$332 millions. As the result of this refinancing, which has been at lower interest rates, the fixed charges of the railway, 1939 compared with 1931, after providing for interest on the additional capital of \$32.3 millions, show a decrease of \$5,643,000.

Mr. HANSELL: Referring to paragraph one, I should like to ask what the total funded debt was.

Mr. COOPER: The amount is \$1,263,000,000. You will find the full details set out on pages 19 and 20 of the report.

The CHAIRMAN: I think you come to that lower down.

Mr. HANSELL: Do those details give us the amount of perpetual bonds? I have not looked at it yet.

Mr. COOPER: Yes; and also the interest rates.

The CHAIRMAN: Are there any further questions, gentlemen? If not, we can proceed.

Mr. DONNELLY: May we go back to the top of the page? Will we have an account of what has been done on profit and loss account with regard to each of these hotels across the country, or where they stand? Do we go into this now, or do we go into it later on?

Mr. ARMSTRONG: We have it all available. We can file a statement.

Mr. DONNELLY: Yes. I think we should have a statement of these different hotels across the country, as to where they stand.

Mr. ARMSTRONG: We have a statement as to revenues, expenses and taxes. Will that be sufficient?

Mr. DONNELLY: Yes.

Mr. HUNGERFORD: You would like that, Mr. Chairman, would you?

The CHAIRMAN: Yes.

Mr. ARMSTRONG: We can file a statement.

The CHAIRMAN: We would like a memo left on the table. You do not want that now, do you, Mr. Donnelly?

Mr. DONNELLY: No, not right now.

Mr. ARMSTRONG: We have it available. We could put it in the record.

Mr. DONNELLY: Very well.

Mr. ARMSTRONG: We have it right here.

Statement *re* hotels supplied by Mr. Armstrong is as follows:—

	1939	1938	Gain or Loss
Account 502 revenues from hotel operations..	\$3,331,303 03	\$3,144,674 00	\$186,629 03
Account 534 expenses of hotel operations ..	2,901,439 17	2,784,021 04	117,418 13
Account 535 taxes on hotel property.. . . .	127,500 27	134,639 21	7,138 94
Net gain or loss	\$ 302,363 59	\$ 226,013 75	\$ 76,349 84

INDIVIDUAL HOTELS

Year 1939	Revenues	Expenses	Taxes	Net
Charlottetown.. . . .	\$ 90,490 93	\$ 89,561 74	\$ 3,637 48	\$ 2,708 29
Pictou Lodge	17,463 02	16,412 30	212 40	838 32
Nova Scotian.. . . .	340,485 02	294,922 96	11,100 50	34,461 56
Chateau Laurier	1,242,045 52	953,935 36	60,153 53	227,956 63
Prince Arthur	150,619 25	136,504 05	4,494 41	9,620 79
Minaki Lodge	49,689 33	45,126 47	.....	4,562 86
Fort Garry	362,073 39	350,790 49	26,606 92	15,324 02
Prince Edward.. . . .	98,746 70	99,891 24	3,273 53	4,418 07
MacDonald	403,309 59	379,967 87	14,137 56	9,204 16
Jasper Park Lodge	345,111 36	284,921 07	3,060 00	57,130 29
Bessborough.. . . .	231,268 92	249,405 62	823 94	18,960 64
	\$3,331,303 03	\$2,901,439 17	\$ 127,500 27	\$302,363 59
Year 1938				
Charlottetown	\$ 85,299 94	\$ 85,029 82	\$ 3,637 48	\$ 3,367 36
Pictou Lodge	17,382 88	16,746 86	305 00	331 02
Nova Scotian	311,978 17	286,357 40	11,071 18	14,549 59
Chateau Laurier	1,158,537 84	927,958 88	62,285 45	168,293 51
Prince Arthur	156,618 49	131,712 05	5,504 34	19,402 10
Minaki Lodge	51,896 80	49,844 07	162 00	1,890 73
Fort Garry	346,474 81	338,583 13	26,305 18	18,413 50
Prince Edward.. . . .	91,839 39	95,888 48	3,972 12	8,021 21
MacDonald	408,460 90	367,050 86	15,071 79	26,338 25
Jasper Park Lodge	291,977 90	237,878 89	4,631 80	49,467 21
Bessborough.. . . .	224,206 88	246,970 60	1,692 87	24,456 59
	\$3,144,674 00	\$2,784,021 04	\$ 134,639 21	\$226,013 75

The CHAIRMAN: Then shall we go ahead? I will ask Mr. Armstrong to read the next.

Mr. ARMSTRONG: The next is in regard to cash deficits.

Cash Deficit

The net operating revenue for the year 1939 was \$20,854,418, an improvement over the preceding year of \$14,788,007. After payment of all fixed and other charges (excepting charges to Proprietor's Equity under the provisions of *The Canadian National Railways Capital Revision Act, 1937*) the deficit for the year was \$40,095,519, an improvement of \$14,218,676 compared with 1938. Full details are given in the accounting statements accompanying this report.

The CHAIRMAN: If there are no questions on that, I will ask Mr. Armstrong to proceed.

Mr. ARMSTRONG: The next is capital expenditure accounts.

CAPITAL EXPENDITURE ACCOUNT

The net expenditures on property investment account for the year 1939 amounted to \$9,863,847, made up as follows:—

Rolling stock purchased or built.....	\$9,416,948
Rolling stock retired.....	8,471,262
Betterments to freight and passenger equipment.....	671,381
Air-conditioning passenger cars.....	445,100
Vancouver Hotel	1,629,042
Senneterre—Rouyn Branch Line.....	325,451
Montreal Terminal Development.....	2,174,590
General additions and betterments, less retirements.....	3,672,597
	<hr/>
	\$9,863,847

The CHAIRMAN: Are most of your passenger cars air-conditioned now?

Mr. ARMSTRONG: On all of the principal routes. All of the main line principal routes are air-conditioned at the present time.

Mr. SANDERSON: Under Vancouver Hotel, there is the figure \$1,629,042. What is that? Is that the amount of expenditure of the Canadian National Railways in that?

Mr. ARMSTRONG: That is the completion cost.

Mr. COOPER: It is the expenditure during the year 1939.

Mr. SANDERSON: Getting back to that hotel, I think we had better ask this question now. Just what are the arrangements between the two railways in connection with that hotel?

Mr. HUNGERFORD: It is a question of general operation. Would you like us to prepare a brief memorandum in answer to the question?

Mr. SANDERSON: I would be satisfied with that.

Mr. COOPER: We would prepare a synopsis of it for you.

Mr. HUNGERFORD: I think it would be more intelligible if you had it before you.

Mr. BERCOVITCH: With reference to the deficit of \$40,000,000, while I think we show a very nice improvement over the previous year, can you give us any hope that some day we will be able to operate the Canadian National Railways without a deficit?

Mr. HUNGERFORD: That is a very large question. You are asking me to read the future. It all depends on the volume of traffic; if you have a sufficient volume of traffic the railways will operate without a deficit.

The CHAIRMAN: We have had it in the past.

Mr. HUNGERFORD: Yes, we have had it in the past; in two years.

Mr. McCULLOCH: The last six months have shown an improvement over the previous six months?

Mr. HUNGERFORD: A very decided improvement?

Mr. McCULLOCH: So that the surplus you will show will be much greater if traffic keeps up for the next twelve months?

Mr. HUNGERFORD: It should be.

Mr. BERCOVITCH: Not necessarily so.

Mr. HUNGERFORD: We will come to that question in connection with the 1940 Budget, if you would like to leave it until that comes up for consideration.

The CHAIRMAN: Let us proceed.

Mr. ARMSTRONG:

The following rolling stock was purchased or built during the year: 1,950 box cars, 40 refrigerator cars (part of an order for 100), 25 cabooses, 50 box-baggage cars, 9 buffet-sleeping cars, 5 mail-express cars, 10 baggage cars, 11 snow ploughs and 8 work units.

To meet anticipated war requirements additional orders were placed for 2,765 box cars, 500 flat cars and 25 Northern type locomotives. This equipment will be delivered and accounted for in 1940.

The following rolling stock was retired during the year: 60 locomotives, 5,044 freight train cars, 27 passenger train cars and 477 work units. The loss has been accounted for as an expense of operation.

The program of air-conditioning passenger train cars was continued. All principal main line trains are now air-conditioned. The Vancouver Hotel and Senneterre-Rouyn branch line were completed during the year.

The CHAIRMAN: Are there any questions?

FINANCE

Retirement of Obligations

The following securities matured and were retired during 1939:

\$ 9,874,062 00	4 per cent Grand Trunk Pacific Branch Lines Company First Mortgage Bonds due January 22, 1939.
8,029,999 99	4 per cent Canadian Northern Railway Company First Mortgage Debenture Stock due January 23, 1939.
2,430,000 00	4 per cent Grand Trunk Pacific Branch Lines Company First Mortgage Bonds due February 25, 1939.
5,586,665 64	4 per cent Canadian Northern Railway Company First Mortgage Debenture Stock due February 25, 1939.
7,004,997 27	4 per cent Duluth, Winnipeg & Pacific Railway Company First Mortgage Debenture Stock, due June 1, 1939.
3,000,000 00	4 per cent Canadian Northern Railway Company Winnipeg Terminals Bonds due July 1, 1939.

\$ 35,925,724 90

Provision was made for the retirement of other capital obligations, including sinking fund and equipment principal payments, amounting to \$8,162,745.72.

The retirement of these obligations was financed through temporary loans from the Government and the new issue referred to below.

The CHAIRMAN: All right, next:

Mr. ARMSTRONG:

New Issues

An issue of Canadian National Railway Company Dominion Guaranteed Bonds was made, dated January 15, 1939. The proceeds therefrom were used to retire matured obligations and temporary loans from the Government. The issue comprised:—

\$15,000,000 2½ per cent Seven Year Bonds, sold at 98.625, at an annual cost of 2.47 per cent.

\$35,000,000 3 per cent Twenty Year Bonds, sold at 96.50, at an annual cost of 3.24 per cent.

An issue of \$6,500,000 Canadian National Railways 2½ per cent Equipment Trust Certificates, Series "Q," 1939, was made, dated July 1, 1939, to provide for the payment of part of the purchase of new equipment costing over \$8,700,000. The certificates, which mature serially in ten annual instalments, were sold at an average of 100·428, the annual cost being 2·46 per cent.

Mr. BERCOVITCH: So, while you have retired \$35,000,000 odd of obligations you have borrowed \$50,000,000?

Mr. ARMSTRONG: Yes.

The CHAIRMAN: That is right.

Mr. DONNELLY: It was just refinancing with the object of giving you lower interest charges?

Mr. COOPER: What is that?

Mr. DONNELLY: Does this refinancing lower your interest charges?

Mr. COOPER: Yes.

Mr. BERCOVITCH: You will not be in a much better position. You retired \$35,000,000 and you borrowed \$50,000,000, so that even with the lower interest rate it will be about the same as far as interest charges are concerned.

Mr. COOPER: There is a certain amount of overlap between the amount of the securities retired during the year and the amount of new issues during the year. That is to say, we do not necessarily refinance during any year the particular securities that have to be dealt with in that year. We note on the previous page that we spent \$10,000,000 on "capital"; so, off the bat, you have got \$35,000,000 of debt retirement; \$8,000,000 for other capital obligations—that is \$43,000,000—and you have \$10,000,000 of new capital expenditures; which makes \$53,000,000 of new money.

Mr. BERCOVITCH: Oh, yes.

Mr. COOPER: We do point out though, sir, that over the years from 1932 to date the capital debt of the railway has increased \$32,000,000, which is an average of \$4,000,000 a year. That is the rate of increase in the capital debt of the National Railways; and notwithstanding that increase in the total debt there has been a reduction in the fixed charges of some \$5,600,000, due to refinancing with interest at lower rates.

Mr. BERCOVITCH: You mean, notwithstanding borrowing this \$50,000,000 you paid \$5,000,000 less interest this year than you did in previous years?

Mr. COOPER: For 1939 as compared with 1931.

Mr. DONNELLY: With respect to the bond issues which you put out, are any of them callable?

Mr. COOPER: Yes; I do not know about the issue of 1939 whether that is callable or not; \$15,000,000 of the seven-year issue, and \$35,000,000 of the 30-year issue are not callable.

The CHAIRMAN: Are there any further questions? If not, we will proceed.

Mr. ARMSTRONG:

GENERAL

Trans-Canada Air Lines

During the year additional calls aggregating 11 per cent, or \$550,000, on the capital stock (\$5,000,000) of Trans-Canada Air Lines were met by the Canadian National Railway Company. To December 31, 1939, the amount subscribed was \$3,750,000.

Mr. MACINNIS: With reference to the cost of Trans-Canada Air Lines, is this stock not all owned by the Canadian National Railways?

Mr. HUNGERFORD: Yes.

Mr. BERCOVITCH: The bonds are guaranteed by the Canadian National.

Mr. HUNGERFORD: There are no bonds.

Mr. COOPER: Trans-Canada Air Lines is financed solely by capital stock, all of which is owned by the Canadian National Railways.

Mr. DONNELLY: Your bonds carry a greater rate of interest than Dominion of Canada bonds.

Mr. COOPER: That is quite a question.

Mr. DONNELLY: If so, why are they all guaranteed by the government?

Mr. COOPER: You do not get two issues that are made on the same date, under the same terms and with the same coupon rate; and for that reason it is not possible to make an exact comparison. I think, though, there is a shade in favour of direct government security as compared with a guaranteed security.

Mr. DONNELLY: Can you account for that?

Mr. COOPER: No, sir.

Mr. DONNELLY: It just seems to me that bonds issued by the railways and guaranteed by the government should be just as good as if the government issued them direct.

Mr. COOPER: If you were buying them you probably would prefer them more than the other.

Mr. BERCOVITCH: Why?

Mr. COOPER: To me there is no reason why you should, but speaking of public opinion generally that is so.

Mr. HANSELL: It is a psychological condition?

Mr. COOPER: Correct.

The CHAIRMAN: Let us get on.

Mr. ARMSTRONG:

Co-operation

During the year approval was obtained from the Board of Transport Commissioners to the abandonment, in co-operation with the Canadian Pacific Railway, of the Canadian National line between Middleton and Bridgetown in Nova Scotia, and the Canadian Pacific line between Linwood and Listowel in Ontario.

Additional applications were made to the Board of Transport Commissioners requesting permission to abandon operation of the following railway line in co-operation with the Canadian Pacific Railway, and decisions of the Board are pending in each case:

From	To	Province	Railway	Mileage
Joliette	Montfort Junction .	Quebec	Can. Nat.	31.6
Carbo	Cushing Junction .	Quebec	Can. Nat.	24.6
Arnprior	Eganville	Ontario	Can. Nat.	37.9
Portage la Prairie .	Delta	Manitoba	Can. Nat.	14.5
Oakland	Cawdor	Manitoba	Can. Nat.	11.6
Muir	Gladstone	Manitoba	Can. Nat.	10.3
McGregor	Varcoe	Manitoba	Can. Pac.	54.4
Hallboro	Beulah	Manitoba	Can. Nat.	75.2
Hamiota	Miniota	Manitoba	Can. Pac.	19.8
Louise	Deloraine	Manitoba	Can. Nat.	56.7
Reston	Wolseley	Man.-Sask.	Can. Pac.	122.4
Alix	Nevis	Alberta	Can. Nat.	9.5
Irricana	Beiseker	Alberta	Can. Nat.	10.0
Langdon	Irricana	Alberta	Can. Pac.	22.6
				<hr/> 501.1

Mr. DONNELLY: How many miles of the Canadian National Railway are involved? I have not added them up.

Mr. ARMSTRONG: Could we have that done for you and put it in later?

Mr. DONNELLY: I was just wondering how it compared; that is, how the number of miles abandoned by each of the railways compared.

Mr. COOPER: They have tried to balance as closely as possible.

The CHAIRMAN: I am inclined to wonder why they ever built that line between Portage La Prairie and Delta.

Mr. McCULLOCH: There appears to have been quite a number more miles abandoned by the Canadian National than by the Canadian Pacific.

Mr. ARMSTRONG: Yes, there is about 50 miles more recommended for abandonment by the Canadian National than by the Canadian Pacific. Of the total of 501.1 miles, 281.9 miles are Canadian National and 219.2 miles are Canadian Pacific.

Mr. HANSELL: Does the railway abandon any lines directly on their own initiative?

Mr. HUNGERFORD: Yes.

Mr. ARMSTRONG: Yes. You notice further on reference to four branch lines which were abandoned by the Canadian National Railways without reference to the Canadian Pacific Railway; what we term unprofitable branch lines.

Mr. HANSELL: I had in mind—I got the idea somewhere but I could not say where—that the matter had to go before the Board of Railway Commissioners first; is that so?

Mr. ARMSTRONG: That is correct. With respect to every one of these abandonments we must apply formally to the Board of Transport Commissioners, and we must obtain an order from them before we can abandon.

Mr. DONNELLY: How long is that line from Middleton to Bridgetown; how long has it been abandoned?

Mr. ARMSTRONG: It is thirteen miles long.

Mr. DONNELLY: Then, how about that branch from Linwood to Listowel?

Mr. ARMSTRONG: That one was a little longer, about 16 miles.

The CHAIRMAN: Any further questions? Proceed.

Mr. ARMSTRONG:

In co-operation with the Northern Alberta Railways, application was made to the Board of Transport Commissioners requesting permission to abandon operation of the following lines:

From	To	Province	Railway	Mileage
Trelle	Morinville.	Alberta.	Can. Nat...	12.2
Carbondale	Egremont.	Alberta.	Nor. Alta...	29.8

In each case one railway takes running rights over the tracks of the other.

Vancouver Hotel

Joint operation of the new "Hotel Vancouver" commenced on May 25, 1939. Unfortunately the tourist season for 1939 was cut short by the outbreak of the war and the business of the hotel was affected accordingly. Notwithstanding, there was a surplus from operations of \$21,978 to be paid as rental to the Canadian National Railway Company and divided with the Canadian Pacific Railway Company as provided in the joint operating agreement.

Line Abandonments

In continuation of the policy of abandonment of unprofitable light traffic branch lines, applications have been made to the Board of Transport Commissioners for authority to abandon the following:

From	To	Province	Mileage
Hawkesbury	Hurdman	Ontario	55.28
Bridgetown	Granville Centre	Nova Scotia	7.63
St. Remi	Hemmingford	Quebec	14.29
Fortierville	St. Gregoire	Quebec	27.25

Board approval has been given to the two first mentioned applications. In addition, authority was given by the Interstate Commerce Commission to abandon the Williamstown Branch, forming part of the Central Vermont Railway, 3.87 miles in length.

Montreal Terminals

Montreal terminals construction work was materially advanced during the year, and it is proposed actively to continue these works in accordance with the program laid out.

Mr. BERCOVITCH: Is that the program mentioned in this report?

Mr. ARMSTRONG: That is the program mentioned in the report that was tabled by the Minister of Transport in the House.

Mr. SMART: The report which was tabled; yes, we have that report here.

The CHAIRMAN: Do you want to go into that now, or shall we just let it go at that for the present?

Mr. HANSELL: Before we go further, in the matter of these lines being abandoned does the trucking business play any important part in your decision to abandon any of these lines?

Mr. ARMSTRONG: Trucking accounts in very large measure for a lot of the lines becoming unremunerative. The Board of Transport Commissioners take into consideration, in making their decision, what service is performed by the trucks so that people will not be left high and dry when a line is abandoned.

Mr. HANSELL: I notice most of these lines are not very long distances, most of them are considerably under 100 miles.

Mr. ARMSTRONG: Take the Hawkesbury-Hurdman line, that is a very good example. It is from Ottawa to Hawkesbury, 55 miles, and is paralleled practically throughout its length by a main highway.

The CHAIRMAN: And a railway line on the other side of the river.

Mr. SMART: One right along side of it.

Mr. RUTHERFORD: Two other railways on this side of the river and one on the north side.

The CHAIRMAN: Any further questions?

Mr. ARMSTRONG:

"Royal Visit to Canada"

The Canadian National system had the honour of conveying Their Majesties, King George VI and Queen Elizabeth, over 4,251 miles of its lines during the Royal Tour last summer. Their Majesties were also passengers on the ss. *Prince Robert* from Victoria to Vancouver. The Canadian National played a prominent part in the preparation and handling of the Royal train.

At the close of the memorable visit, His Majesty expressed his appreciation of the uniform excellence of the railway service on his long journey through Canada, and his message was communicated to the officers and employees in the various departments of the system.

"War Conditions"

The outbreak of war greatly added to the ordinary activities of the Railway in the year 1939, and the Company has been called upon to provide greatly augmented transport services. In addition, it has contributed in numerous ways to the national war effort, and the services of a number of officers and employees have been loaned to the Dominion Government for specialized war work. From the outbreak of the war to the end of the year some 430 employees enlisted for military service, and suitable arrangements have been made for the preservation of their employee and pension status."

The CHAIRMAN: What arrangements have you made with those people? Do they get their salary while they are away?

Mr. ARMSTRONG: Their pension rights are preserved and their seniority is preserved, but there is no salary paid.

Mr. BERCOVITCH: And their position is preserved if they return?

Mr. ARMSTRONG: Their position is preserved if they return.

The CHAIRMAN: A great deal of trouble was caused after the last war because of guarantees that were made to employees who served as soldiers in the great war.

Mr. HUNGERFORD: We had a great many complications following the great war due to the fact that different managements of the Canadian National pursued different policies in respect to the employees. We have made a determined effort this time to make such arrangements as will avoid those complications and discrepancies which occurred before. We think we have accomplished that.

Mr. ROSS: In what manner is the position of a man who goes overseas preserved?

The CHAIRMAN: His position is maintained in the service.

Mr. ARMSTRONG: He is really on leave of absence from his position.

Mr. ROSS: But when he returns his position will be filled.

Mr. ARMSTRONG: If he returns, his seniority can be exercised for that position, assuming that he is capable of carrying on in that position.

Mr. DONNELLY: While he is over there, he is considered just the same as though he were in the service.

Mr. ARMSTRONG: He is on leave of absence without pay.

Mr. ROSS: What happens in the case of an employee who has seniority rights and fills the position of a man who goes overseas when this man from overseas returns?

Mr. ARMSTRONG: He will have to step down.

Mr. ROSS: There will be a general stepping down right through the service?

Mr. ARMSTRONG: It will probably mean stepping down right through the various departments.

Mr. ROSS: That has been arranged in that way?

Mr. ARMSTRONG: It has been arranged that way.

Mr. ROSS: That is the understanding?

Mr. ARMSTRONG: In the case of certain groups of employees there are seniority lists, and he would take his place at the top and, as we say, "bump" right down.

Mr. BERCOVITCH: He knows that when he goes into the service; he knows he is filling someone else's shoes.

Mr. HUNGERFORD: Through vacancies occurring in the group, a man coming back may be entitled to a superior position.

Mr. ROSS: That is what I wanted to be sure about.

Mr. HUNGERFORD: On the other hand, he may be pushed down to some lower position, though his seniority is maintained.

The CHAIRMAN: He maintains his seniority?

Mr. HUNGERFORD: Quite.

Mr. ARMSTRONG: As if he had not been absent.

Mr. MACINNIS: Have new employees been taken on to fill most of these positions?

Mr. HUNGERFORD: In general we have called back laid-off employees to fill these positions.

The CHAIRMAN: Proceed, Mr. Armstrong.

Mr. ARMSTRONG:

"Outlook for 1940"

The outlook for 1940 is for a substantial increase in traffic and for a corresponding improvement in the financial results. Canada's participation in the war will bring greatly increasing demands upon the Canadian National Railways for transportation services, but the Directors are confident of the railway's ability to meet every need which may arise and that the officers and employees may be relied upon to perform their duties with a keen sense of responsibility, no matter how exacting conditions may become.

For the Board of Directors,

S. J. HUNGERFORD,
Chairman."

The CHAIRMAN: Are there any further questions before we proceed to the balance sheet?

Mr. COOPER: I should like to make a correction. Mr. Donnelly asked me whether the issue of 1939 was callable. I said it was not. A part of it, that is, the seven-year issue, is not, but the twenty-year issue is callable.

Mr. DONNELLY: When?

Mr. COOPER: It is callable in whole or in part at par, January 15, 1954, or on any interest date thereafter upon sixty days' notice.

Mr. DONNELLY: You have other callable bonds, have you not?

Mr. COOPER: Oh, yes.

Mr. DONNELLY: Some of these bonds carry very high interest rates; it is too bad that some of them are not callable.

Mr. HUNGERFORD: Quite a lot of them are callable.

Mr. COOPER: That would be very largely a matter of government policy. As far as the railway is concerned, we could not get exchange for sterling or United States funds today. That is a matter for the government finance department to act on.

The CHAIRMAN: Shall we proceed with the balance sheet? If not, shall we proceed with the Profit and Loss Account? What about the Consolidated Income Account?

You were asking for the expenses of the hotels, Dr. Donnelly.

Mr. McCULLOCH: Are there many Canadian National cars with equipment in the United States under rental?

Mr. ARMSTRONG: There is a natural interchange between railways in the United States and Canada. Our cars cross the border freely, and their cars naturally cross the border, under loan.

Mr. McCULLOCH: But what about the proportion?

Mr. ARMSTRONG: It is fairly well maintained.

Mr. HUNGERFORD: The box car balance fluctuates from time to time, but, at the present time, it is fairly well in balance.

Mr. ARMSTRONG: The net balance is against us, as you will notice. That is because of what are known as private line refrigerator cars which bring in fruit, vegetables and such commodities from the United States. Actually on ordinary box cars, flat cars and coal cars, there is just about an even break. On account of the very heavy movement of fruit, etc., there is a large payment made to the American owners which accounts for the net debit.

The CHAIRMAN: Gentlemen, are you through with the Consolidated Income Account? If you do not wish to investigate it further, shall we go on to the operating revenues?

Mr. BERCOVITCH: Supposing, Mr. Chairman, we were to go over all these various figures ourselves and then if any of us have questions to put we might put them at the next sitting.

The CHAIRMAN: Very well.

Mr. BERCOVITCH: If you read all these items it will take a great deal of time and we will probably be no wiser than we are at this moment. A question or two might suggest itself to some of us, and in that way we could ask permission to put such questions as occur to members of the committee at the next sitting.

The CHAIRMAN: Is it your suggestion that we pass through the report along these lines?

Mr. BERCOVITCH: Yes.

The CHAIRMAN: All the way through.

Mr. BERCOVITCH: All the way through.

The CHAIRMAN: Does the committee at large agree with that suggestion?

Mr. HANSELL: Before we pass this matter of debt, I should like to ask a question. Perhaps the question is not a fair question to ask these gentlemen. I asked the government some time ago what the total national debt was. At that time I got the figure of somewhere over three billion dollars. Is the debt of the railway included in that figure?

Mr. ARMSTRONG: It is not included.

Mr. HANSELL: So that when we got the figure for the total national debt that was not the correct figure.

Mr. BERCOVITCH: I do not know that it is not the correct figure.

Mr. CHAIRMAN: It is embraced in the national debt somewhere.

Mr. BERCOVITCH: The Canadian National Railway, as I take it, is a contingent liability of the government. It is no more than that. When the government gave you the figure of three billion dollars, that would be accurate. The Canadian National Railway is a contingent liability which the government may or may never be called upon to pay.

Mr. DONNELLY: In connection with transportation expenses shown on page 16, would it be possible for you to give the committee the number of employees who are receiving \$1,000 per year or less; also the number receiving between \$1,000 and \$2,000; the number of employees receiving between \$2,000 and \$3,000; the number between \$3,000 and \$4,000, and \$4,000 and \$5,000, right up? I also think we should have the number of employees in the larger brackets.

The CHAIRMAN: Would you like a note made of your interrogation, Mr. Donnelly?

Mr. DONNELLY: Yes.

Mr. ARMSTRONG: We have, roughly, 90,000 employees. It would mean examining the record of practically each one to determine what he received for the entire year. What we could do is this. We have group figures. Take a group such as roadmasters, general foremen, supervisors, inspectors and assistants. There are 226 employees in that group, with a total compensation of \$603,000, the average rate being so much. Would that be satisfactory?

Mr. DONNELLY: I think the committee should know how many men there are in the employ of the Canadian National receiving less than \$1,000 a year.

Mr. ARMSTRONG: Some receiving less than \$1,000 per year may be working at the rate of \$8, \$10 or \$12 per day. For a certain year they may be getting less than \$1,000, but they may be working, so far as the railway is concerned, at a rate of \$10 per day.

Mr. McCULLOCH: But not working steadily?

Mr. ARMSTRONG: But not working steadily. And one man may work a month, another man may work two months, while another may work three months.

Mr. BERCOVITCH: It really would not give you very much, Mr. Donnelly.

Mr. DONNELLY: It would give us some idea of the salaries of these different men.

Mr. ARMSTRONG: Mr. Cooper tells me we give the income tax people the earnings of each employee over \$1,000. By deduction we could get the number who are earning less than \$1,000.

Mr. McCULLOCH: It will have to be put down to \$750 now.

Mr. COOPER: They may have to go down to \$600.

Mr. ARMSTRONG: Would that be of any service, Mr. Donnelly.

Mr. DONNELLY: Yes, I think that would be of service; it would give us some idea. I think we should have the figures for those in the upper brackets, too; say the figures of those getting over \$5,000—between \$5,000 and \$6,000, between \$6,000 and \$7,000 and between \$7,000 and 8,000.

Mr. ARMSTRONG: The only way it could be furnished would be to examine the earnings of each man throughout the year and then classify them. There are over eighty thousand of them.

Mr. DONNELLY: There is a feeling throughout the country that the railway is top-heavy with well-paid employees.

Mr. ARMSTRONG: If we furnished it by groups, the number of employees in each of these groups, such as executive, general officers, general superintendents, district officers and assistants, would that be satisfactory? This is in accordance with the Dominion Bureau of Statistics. There are 246 with total earnings of over \$1,000,000. The next group is that of division superintendents, etc. Could we furnish that to you?

Mr. DONNELLY: That would be all right.

Mr. ARMSTRONG: The average salaries could be taken out.

Mr. ROSS: That would not satisfy your people.

Mr. DONNELLY: I am talking not only of my people but the general public.

Mr. ROSS: That is what I mean.

Mr. DONNELLY: We are looking for something.

Mr. HUNGERFORD: I am quite prepared to say, Mr. Donnelly, that the implication is wrong.

Mr. DONNELLY: Then it would be to your advantage to let us know so that we can refute their arguments.

Mr. HUNGERFORD: This organization has been worked down and down until we have found that when the extra load came we did not have men enough in the supervisory positions in many departments to take care of the situation.

Mr. BERCOVITCH: What is your total number of employees?

Mr. HUNGERFORD: About 80,000. It fluctuates from time to time. In the summer time we take on a lot of labourers and others for track maintenance work and things of that kind, and that boosts the number, and they are laid off when the work is completed. Also the number fluctuates with the volume of traffic.

The CHAIRMAN: I think we will call these headings and pass them. The last heading I think, that we mentioned was "Operating Revenues." We will pass "Operating Revenues" and the "Summary of Operating Expenses." We next come to "Maintenance of Way and Structures Expenses." If there are no questions we will pass that for the time being.

Mr. BERCOVITCH: Always under reserve.

The CHAIRMAN: You can come back to it. We now come to "Maintenance of Equipment Expenses," at page 15.

Mr. BERCOVITCH: I see you have an item there of \$272,000 for injuries to persons. Is that injury to persons while riding on the train or accidents generally that occur to your employees in the yards?

Mr. ARMSTRONG: Those are for employees; payments for workmen's compensation, etc.

The CHAIRMAN: The next heading is "Traffic Expenses." We shall pass that. The next heading is "Transportation Expenses."

Mr. DONNELLY: Where do you get your coal to Fort William and west of Winnipeg?

Mr. HUNGERFORD: We get it practically all from Alberta. We use it east of Winnipeg to a certain extent.

Mr. DONNELLY: Where is your dividing line?

Mr. HUNGERFORD: At the present time the dividing line is about Atikokan.

Mr. HANSELL: Do the railways have their own mines at all?

Mr. HUNGERFORD: We have not with the exception of one mine down in Ohio that was bought by the Grand Trunk company many years ago. We have not any mines in Canada.

Mr. DONNELLY: You use some American coal?

Mr. HUNGERFORD: Some.

Mr. DONNELLY: What part of the lines would use American coal?

Mr. HUNGERFORD: Western Ontario up to Fort William and beyond; Atikokan is the dividing point.

Mr. DONNELLY: In eastern Canada you use Nova Scotia coal?

Mr. ARMSTRONG: Maritime coal.

Mr. HANSELL: Would it be too much to ask you to make a note of that and give us the approximate amount of coal ordered from the different parts of the country including American coal?

Mr. HUNGERFORD: You would want it divided into Maritime provinces in one group and United States coal, etc.?

Mr. HANSELL: Yes.

Mr. HUNGERFORD: And then Alberta west and so forth.

Mr. HANSELL: I am particularly interested in the tonnage.

Mr. HUNGERFORD: I think perhaps the figures are here.

Mr. HANSELL: If it is not too much trouble you could give us the tonnage and price. I am not particularly interested in the price because prices vary here and there.

The CHAIRMAN: Is there any other query in regard to that?

Mr. DONNELLY: You buy your coal where you can get it cheapest; is that correct?

Mr. ARMSTRONG: That is correct.

Mr. DONNELLY: Whether American or Canadian.

Mr. BERCOVITCH: The important point in that connection is the use of American funds just now.

Mr. DONNELLY: But that will reduce the amount they use because it is more expensive.

Mr. HANSELL: I understand some times where it appears to be cheapest it may not be found to be cheaper when they start to operate. I read a very good article in the company's magazine a year or so ago on that, where certain types of coal were found to be cheaper, and where the company had to be extremely careful in the type of coal they burn in their engines. I thought it was a very good article because of the time and skill that was put into arriving at the proper kind of coal to be used in the engines. So it does not always necessarily follow that you buy where it is cheapest. It may not be the cheapest in the long run.

Mr. DONNELLY: I would gather from your remarks that when you are hauling Alberta coal down to eastern Canada for domestic use you are using eastern Canada coal or American coal to haul it down.

Mr. ARMSTRONG: To some extent in Ontario, yes.

Mr. HUNGERFORD: American coal comes in by water very largely. That makes it considerably cheaper to use. The Canadian coal we use in Ontario and Quebec and more particularly in Ontario is only made possible by government subvention, because generally speaking the American coal can be laid down in this territory for much less money than Canadian coal.

Mr. DONNELLY: At the present time with the price of American coal up 10 or 11 per cent by reason of the fact that that amount has to be paid for American funds, it should lessen the amount of American coal you will be using.

Mr. HUNGERFORD: As a matter of fact we use Canadian coal wherever we can justify it at all.

Mr. ROSS: Now take the item "train fuel." What proportion of that would be oil; what percentage?

Mr. ARMSTRONG: Oil is only used west of Jasper on the line to Prince Rupert and on the line to Vancouver and on Vancouver Island to some extent. British Columbia coal is used on at least one or two engine divisions east of Vancouver for certain trains.

Mr. ROSS: You have an item here of \$14,000,000. What percentage of that—

Mr. ARMSTRONG: The percentage of dollars? I misunderstood your question.

Mr. ROSS: What percentage of that—

Mr. DONNELLY: Where are your lubricants bought, in the United States?

Mr. ARMSTRONG: Largely in Canada.

Mr. HUNGERFORD: For Canadian lines they are all bought in Canada.

The CHAIRMAN: Are you still waiting for an answer, Mr. Ross?

Mr. ROSS: Yes, for the percentage of oil in that \$14,000,000 item.

Mr. ARMSTRONG: I have that question, sir. I shall look it up and give you an answer as quickly as possible.

The CHAIRMAN: We now come to "Miscellaneous Operating Expenses."

Mr. DONNELLY: With regard to your dining cars, are they run at a profit or loss?

Mr. HUNGERFORD: At a loss. That is a common experience.

Mr. ROSS: It is a very excellent service, too.

Mr. McCULLOCH: If they would only put one on the Ocean Limited leaving Montreal at night.

Mr. DONNELLY: I see you have grain elevators. What grain elevators are these?

Mr. HUNGERFORD: We have them scattered around different places. We have one down at Saint John and we have some up in Georgian bay, different places.

The CHAIRMAN: We now come to "General Expenses."

Mr. ROSS: Under the heading of "Miscellaneous Operating Expenses" I see the item "Other Miscellaneous Operations." Does that item apply to any one particular branch or is it spread all over?

Mr. HUNGERFORD: These items are grouped in this heading under the requirements of the standard accounting system.

Mr. DONNELLY: Is your grain elevator at Saint John full of grain at the present time?

Mr. HUNGERFORD: Generally speaking they are, yes, practically everything filled up.

Mr. DONNELLY: At the present time is it run at a profit or at a loss?

Mr. HUNGERFORD: Well, the operation of the elevators themselves vary from time to time. Of course, the objective is to get the haulage of the grain. That is the important factor in the picture.

Mr. DONNELLY: Do you make a special agreement with our wheat carriers for storage charges? Have you a special arrangement with the wheat board for storage charges?

Mr. HUNGERFORD: As I recall it we are subject to the approval of the tariff of the wheat board.

Mr. DONNELLY: I understand that. I know, of course, that the wheat board charges one cent storage charge. They fix that maximum of one cent a month. I am led to believe the grain board fixes that charge of one-thirtieth of a cent a day. I understand also the wheat board when it is in charge of these things and when wheat is handed over they make special arrangements with the companies to store this wheat at a much lower rate. For example, the internal storage elevators at Moose Jaw, Regina and Saskatoon, carry it at one-sixtieth of a cent a day, and often some of it is carried at less. Now, I wondered if you had a special arrangement with them as well for storage facilities or do you—

Mr. HUNGERFORD: I do not think I can answer that, doctor, at the moment. I will look it up for you.

The CHAIRMAN: Do you want that now?

Mr. DONNELLY: Yes. These charges are set not by the government at all; these charges are set entirely by the Board of Grain Commissioners, and this Board of Grain Commissioners sets the maximum charge that can be made, but when wheat is handed over from the private elevator or from the private grain companies the wheat board makes special provision with the terminal elevators for a reduced rate to store their grain. I was wondering whether any special arrangements were made by you for the same purpose.

Mr. HUNGERFORD: There may be, but we will have to look it up. We have no storage provisions in the ordinary sense.

Mr. DONNELLY: Your terminal elevator at Saint John would be a terminal elevator?

Mr. HUNGERFORD: To that extent it would be, but it is a very small elevator. The other elevators are at Georgian bay. They are used for transferring from boat to rail.

Mr. DONNELLY: I understand the charges that were made were made when the elevators were half full or quarter full. Now they are full to the roof practically the year round, and the charges must be less now than they were before.

Mr. HUNGERFORD: We will look it up for you, sir.

Mr. ARMSTRONG: We have an answer to the fuel oil question. The total expense for train fuel was about \$14,500,000. The expenditure for fuel oil is about \$1,250,000, which is less than 10 per cent—probably 8 per cent.

The CHAIRMAN: We now come to "General Expenses," and "Property Investment Account."

Mr. DONNELLY: Under the item of "General Expenses" I notice "Pensions." Is the pension paid so much by the individual, so much by the company, and so much by the government?

Mr. DONNELLY: The contribution to pensions all comes from the two?

Mr. COOPER: The railway or the employees as far as our pensions are concerned, yes. Down on the I.C.R. there is an arrangement where the minimum pension was raised from \$20 to \$30, and the government provided that proportion of the pension by a special vote. But generally speaking the pensions are paid at the expense of the railway with a certain proportion contributed by the employees out of funds contributed by the employees.

Mr. BERCOVITCH: What is the percentage contributed by the employees?

Mr. COOPER: It varies. We have three funds. In the Grand Trunk superannuation fund they contribute $2\frac{1}{2}$ per cent; in the I.C.R. fund they contribute $1\frac{1}{2}$ per cent; and in the main pension fund the rate of contribution is optional with the employees. They can go from 1 to 10 per cent and the company will match them from 1 up to 5 per cent.

Mr. MACINNIS: What did you say the company's contribution would be in the main fund? Was it 1 to 5 per cent?

Mr. COOPER: In the main Canadian National Railway fund the employees may contribute 1 to 10 per cent of their salary, and the company will match their employee's contribution up to 5 per cent.

Mr. HUNGERFORD: It is optional with the employee. One individual may contribute 1 per cent of his salary; another one may contribute 2 per cent and another one 3 per cent and so on. But the company will match his contribution, whatever it may be, up to the maximum of 5 per cent of his wages.

Mr. BERCOVITCH: Is that put on a twenty year basis or a thirty year basis or what?

Mr. COOPER: What do you mean by that, Mr. Bercovitch?

Mr. BERCOVITCH: I mean, would a man be entitled to his pension after twenty years or after thirty years?

Mr. COOPER: A man must enter the service before age forty-five, and he retires at sixty-five; they are the two limits. But, of course, a man may be in the service forty years. I should add, perhaps, that the main pension fund has only been on a contributory basis since January 1, 1935. Prior to that all the expense of the pension was at the expense of the company. I mean, I do not want you to think that some of the employees have been contributing for forty years.

Mr. DONNELLY: Are your pensions on an actuarial basis?

Mr. COOPER: Yes.

Mr. DONNELLY: You have your actuaries, and your fund is sound, is it?

Mr. COOPER: All the funds of the pension fund are invested in Dominion securities or Dominion guaranteed securities.

Mr. SANDERSON: Employees are not always retired at sixty-five, are they?

Mr. COOPER: Almost invariably. We answered that question. To my knowledge, there are about six supervisory officers whose services have been extended beyond the age of sixty-five.

Mr. SANDERSON: Does that not apply to the train men, we will say?

Mr. COOPER: They retire at age sixty-five.

Mr. SANDERSON: Always?

Mr. COOPER: Invariably, provided we know their ages. We have some difficulty in getting birth certificates and that sort of thing. But if we know a man is sixty-five, he retires at that time. It is automatic. It is not optional.

Mr. McCULLOCH: I suppose you have a lot of letters from railway men asking to have another year?

Mr. McCULLOCH: Oh, thousands of them. There is a situation arising there at the present time. There is a great demand for mechanics, in particular for iron working mechanics. It may be that, if the shortage becomes very pronounced, we will have to continue employees or possibly recall some of the pensioners in that particular group; but that demand does not extend to other groups and probably will not be very important in respect to mechanics.

Mr. HANSELL: In the case of labourers, I do not see why they should not have an extension. Many of them have not been earning sufficient to put very much away. The result is that at the age of sixty-five a good many of them are liable to be placed on public relief rolls and one thing and another.

Mr. HUNGERFORD: Well, that is the basis that was adopted at the inauguration of the pension fund, and it is largely a matter of agreement with the employees themselves.

Mr. HANSELL: Of course, I have particular reference to those who have not been in the service for twenty years, say. They get no pension, I understand; or do they?

Mr. McCULLOCH: They will not be taken into the service if they are over forty-five.

Mr. HANSELL: Oh, there have been some.

Mr. HUNGERFORD: Very seldom.

Mr. McCULLOCH: Not very many.

Mr. COOPER: Under the old rules, the age limit of entry into the service was fifty and the retirement age was sixty-five. In every case of people being retired today, it is under the old rules. The new rule of age forty-five only went into effect in January, 1935; we have not come to any of those people yet, and we will not come to them for another fifteen years. So that today a man could have entered the service prior to age fifty and still have a pension.

Mr. HANSELL: Is that so with labourers as well?

Mr. COOPER: Yes; is they have fifteen years service they get a pension.

Mr. HANSELL: What happens if they should die before they reach the retirement age? Are their widows the beneficiaries?

Mr. COOPER: Not at all, except when they have been contributors to the fund; in which event they would get their contribution with interest.

Mr. HANSELL: They would not lose what they had put into it?

Mr. COOPER: No, sir; in no case.

Mr. MACINNIS: Is the pension system compulsory?

Mr. COOPER: No, it is optional; that is, the contribution is optional. In the event that they are not contributors, there is a basic pension granted at the expense of the company of \$25 a month.

Mr. HUNGERFORD: If they have been in the service for a sufficient length of time.

The CHAIRMAN: The next is property investment account.

Mr. McCULLOCH: Are these concerns which treat the ties—do the creosoting—owned by the railway or are they all private concerns?

Mr. HUNGERFORD: They are all private concerns. They do the work under contract for us.

The CHAIRMAN: What do you salvage from disused branch lines and sidings? Do you just salvage the steel?

Mr. ARMSTRONG: The steel is all, except possibly the bridges—that is the steel bridges. They may be of some use for scrap or in some cases for other branch lines.

Mr. HUNGERFORD: We salvage everything that is salvageable.

Mr. SISSONS: Where were the new lines constructed?

Mr. COOPER: That is the completion of the Senneterre-Rouyn branch line.

Mr. BERCOVITCH: Is that in operation now?

Mr. COOPER: Yes, sir.

The CHAIRMAN: If you are all through on that section, the next is transactions during the year 1939 affecting proprietor's equity.

Mr. BERCOVITCH: Carried.

The CHAIRMAN: The next is funded debt—principal and interest.

Mr. BERCOVITCH: Have you any idea as to the total amount of United States funds that the government would have to pay in this \$41,000,000 for interest?

Mr. COOPER: About \$22,000,000.

Mr. BERCOVITCH: That is a lot of money.

Mr. COOPER: Yes, sir.

Mr. DONNELLY: Is there no possibility of these perpetual bonds being transferred or changed into time bonds?

Mr. COOPER: I think that is a question which Dr. Clark would have to answer.

Mr. BERCOVITCH: There would not be any possibility without the consent of the holders or special legislation.

Mr. COOPER: That debenture stock is nearly all sterling stocks, and it is quite impossible for the Canadian National Railways or any other company in Canada to obtain sterling exchange for the purpose of retiring sterling stocks. It is entirely in the hands of the government.

Mr. BERCOVITCH: That is the only way it could be done. The railway company could not do it themselves.

Mr. HUNGERFORD: That has been given a great deal of consideration, and there has been a great deal of discussion.

Mr. BERCOVITCH: It would be a question of repudiation if they adopted legislation.

Mr. DONNELLY: It would not be repudiation if you come along and offer a man his money.

Mr. BERCOVITCH: If he is willing to take it, it will not be repudiation.

Mr. DONNELLY: If you offer a man his money, it would not be repudiation.

Mr. BERCOVITCH: No, but you have to have his consent. It would be impossible if you did not have his consent, unless you passed special legislation, which would mean repudiation.

The CHAIRMAN: They have not been ready to take their money, so far.

Mr. BERCOVITCH: No.

Mr. McCULLOCH: You say a great many of these are in sterling?

Mr. COOPER: Some is in United States, some is in sterling and some in Canadian; some two ways and some three ways.

Mr. McCULLOCH: The ones that have them in sterling are getting 5 per cent. They would have a much lower rate on sterling. They would be getting about 7 per cent for their money or 6 per cent.

Mr. COOPER: It is sterling security and they receive 5 pounds in sterling.

Mr. ROSS: The larger proportion is in sterling of the G.T.R.?

Mr. COOPER: No, I think the larger proportion is in dollar securities.

Mr. ROSS: In which?

Mr. COOPER: Are you speaking of the one item, perpetuals?

Mr. ROSS: Yes.

Mr. COOPER: Those debenture stocks—the first five—are almost entirely held in Great Britain and are sterling, yes.

Mr. ROSS: Yes. That is what I thought.

The CHAIRMAN: Shall we go on to the next item, gentlemen—transactions during the year 1939 affecting proprietor's equity?

Mr. BERCOVITCH: We passed that.

The CHAIRMAN: Oh, yes, that is right. The next is Dominion of Canada—Loans.

DOMINION OF CANADA—LOANS

(Treated as Assets in Public Accounts of Canada)

	Principal Outstanding at Dec. 31, 1939	Interest Accrued 1939
3½% Advances, Financing and Guarantee Act, 1938	\$ 1,717,008 90	\$ 75,035 45
3½% Advances, Financing and Guarantee Act, 1939	12,203,902 98	227,553 09
3½% Advances, Branch Line Construction Act, 1936	532,873 24	18,795 97
3½% Advances, Trans-Canada Air Lines Act, 1937	550,000 00	15,615 76
3% Purchase of Railway Equipment (Repayable 1938-1950)	5,688,903 87	175,192 38
2% Advances, Refunding Act, 1938	24,689,392 53	380,471 57
Interest on Advances refunded in 1939 . . . . .	.....	23,500 79
	<hr/> \$45,382,081 52	<hr/> \$ 916,165 01

INVESTMENTS IN AFFILIATED COMPANIES

COMPANY	Amount Outstanding	Amount Owned by Can. Nat. System	Book Value
Stocks:			
Atlantic and St. Lawrence Rail Road Company	\$ 5,480,700 00	\$ 224 33	\$ 176 53
The Belt Railway Company of Chicago	3,120,000 00	240,000 00	240,000 00
Canadian Government Merchant Marine, Limited	300 00	300 00	300 00
Central Vermont Transportation Com- pany	200,000 00	50,000 00	20,000 00
Chicago & Western Indiana Railroad Company	5,000,000 00	1,000,000 00	1,000,000 00
The Detroit & Toledo Shore Line Rail- road Company	3,000,000 00	1,500,000 00	2,142,000 00
Detroit Terminal Railroad Company..	2,000,000 00	1,000,000 00	1,000,000 00

Canadian National Railway Company is \$4,710,000. The Canadian National Railway Company takes up currently in its income account one-half of the annual deficit of Northern Alberta Railways Company.

THE DETROIT & TOLEDO SHORE LINE RAILROAD COMPANY:

Assumed by Grand Trunk Western Railroad Company as joint and several guarantor by indorsement of principal and interest of \$3,000,000 First Mortgage 4 per cent—50 Year Gold Bonds due 1953.

THE TOLEDO TERMINAL RAILROAD COMPANY:

Assumed by Grand Trunk Western Railroad Company in respect of \$5,800,000 First Mortgage $4\frac{1}{2}$ per cent—50 Year Gold Bonds due 1957. The guarantee is as to interest only and is several and not joint. Grand Trunk Western's proportion is 9.68 per cent.

CHICAGO & WESTERN INDIANA RAILROAD COMPANY:

Assumed by Grand Trunk Western Railroad Company, pursuant to joint supplemental lease dated July 1, 1902, between Grand Trunk Western Railway Company and four other proprietary companies. Obligation is for repayment of principal of bonds at their maturity, and of interest as it falls due by way of annual rentals. The Grand Trunk Western's obligation is for one-fifth of the bonds issued for "common" property and the entire amount of bonds issued for its "exclusive" property. The bonds are Consolidated Mortgage 50 year 4 per cent bonds due 1952 and the amounts outstanding at December 31, 1939, are:

Issued for "common" property.. . . .	\$39,973,019 39
Issued for "exclusive" property.. . . .	252,535 36

Assumed by Grand Trunk Western Railroad Company pursuant to joint supplemental lease dated March 1, 1936, between Grand Trunk Western Railroad Company and other proprietary companies. Obligation is to pay as rental sinking fund payments sufficient to retire bonds at maturity and interest as it falls due. The Grand Trunk Western's proportion is one-fifth in the absence of default of any of four other tenant companies. The bonds are First and Refunding Mortgage $4\frac{1}{4}$ per cent Series "D" Sinking Fund Bonds due 1962 and the amount outstanding at December 31, 1939, is \$22,044,000.

C.N.R. PENSION PLANS:

Reserves are not set up against pensions presently being paid or conditionally accruing under the 1935 contractual plan and prior non-contractual plans. Actual pension payments made at the expense of the Railway are charged currently to operating expenses.

Pension contracts in force under the 1935 contractual plan number 3,151, the average annual pension is \$488, the total annual pensions being \$1,538,691 representing a capital sum of approximately \$13,350,000. The portion of this sum contributed by retired employees is carried in the accounts as a deferred liability.

Mr. SMART: The first paragraph of this section answers Mr. Bercovitch.

Mr. BERCOVITCH: Yes, it does.

The CHAIRMAN: If there are no questions we will proceed to page 22. Schedule of Companies Comprising the Canadian National Railway System.

Mr. HUNGERFORD: I may say, for the information of the committee, that we have been carrying on a campaign to reduce the number of companies as far as we could. There are many complications in the way but we have been able to eliminate a certain number of companies, and that is the policy.

The CHAIRMAN: Do you wish to ask any questions?

Mr. ROSS: In the report of 1938 the number of companies were 99, and now I see that there are 102 in the 1939 report; where does the reduction come in? There is a difference of 3, an increase rather than a reduction.

Mr. HUNGERFORD: There have been some of them eliminated anyway, that is sure.

The CHAIRMAN: On page 24—

Mr. ROSS: Could we have a list of the reductions?

Mr. COOPER: We will give you a list.

Mr. ROSS: And a list of the increases as well.

Mr. BERCOVITCH: While you are at it perhaps you might give us an idea of the Industrial Land Company.

Mr. COOPER: That is a holding company for non-railway lands.

Mr. BERCOVITCH: Did you say, non-railway land?

Mr. COOPER: Surplus lands, which were excluded from the general mortgage of the Grand Trunk Western, were put in this holding company and disposed of as opportunity presented itself.

Mr. BERCOVITCH: Is it a Canadian company?

Mr. COOPER: No, it is an American corporation, incorporated in the State of Michigan.

Mr. HUNGERFORD: I may say it is a wholly owned company.

Mr. BERCOVITCH: I see.

The CHAIRMAN: Are there any other questions?

Mr. BERCOVITCH: Have any of these lands held by this company been sold or disposed of?

Mr. COOPER: I would say no; the company tried hard to get rid of some of these lands—on account of taxes, obviously—but the market conditions were not good for the disposal of this type of property.

Mr. BERCOVITCH: You have not purchased any new lands though?

Mr. COOPER: I would not say so, and I would not say positively not; but certainly they did not amount to anything.

The CHAIRMAN: On page 24: Statement of Revenue Tonnage by Commodities for Years 1939-1938:

Mr. DONNELLY: Would it be possible for you to figure out for us the cost of moving a ton mile of wheat this year as compared to what the cost was in 1926; say, the labour used in the moving of a ton mile of wheat as compared to labour employed in 1926?

Mr. HUNGERFORD: That is a bit involved.

The CHAIRMAN: How about the whole cost?

Mr. ARMSTRONG: It is a rather involved question.

Mr. DONNELLY: You see, your engines today are so much larger, and your steel is so much heavier. I would like to find out what the saving has been to the country by increasing your trainloads as to size; or what saving of labour there has been in that way, let us say, as compared to the conditions which obtained in 1926?

Mr. BERCOVITCH: Why 1926?

Mr. DONNELLY: I just took that because it is generally used as a base year for purposes of comparison.

Mr. BERCOVITCH: I see.

Mr. ARMSTRONG: We can give you the increase in size of the average train, for example; but to turn that into dollars and cents becomes a rather complicated problem.

Mr. HUNGERFORD: One has to make so many assumptions.

Mr. ARMSTRONG: Of course, no increase has been made in the size of trains operated on branch lines. We have our lighter locomotives on these lines. It is only on the main lines that you get any saving due to heavier locomotives; and, as you say, better rails. That is only on the main lines, to take it and relate it to the total cost, involves quite a problem; to do that you would have to make a considerable number of assumptions and it would be very highly theoretical.

Mr. DONNELLY: My idea is this: we have increased the size of our trains, we have increased the weight of steel used in rails, and we also have increases in wages. Has that increase in wages eaten up the advantages obtained in the size of our trains or in the weight of rail used?

Mr. ARMSTRONG: I think the only measure you can get of that is the general improvement of the railway as a whole. There is another factor also which comes in which would complicate it, and that is the increase in efficiency of the railway itself over that period from 1926 on. It is difficult to allocate to any one of these factors its value,—what effect it has on the whole situation.

Mr. BERCOVITCH: You would know the cost of moving freight from one point to another per ton mile; you would know that, wouldn't you?

Mr. ARMSTRONG: Railway costs are rather difficult to get at when you come to a unit basis. For instance, you can analyse the operations of one branch line and ascertain whether you are making money or losing money. When you get into average costs you get into a very complicated problem which requires a considerable number of assumptions, and certainly it is altogether very difficult.

Mr. BERCOVITCH: And not likely to be accurate.

Mr. ARMSTRONG: And not likely to be accurate; and very difficult except to compare one period to another. Would this satisfy you? We did make a comparison here in a very rough manner between 1939 and 1930.

Mr. DONNELLY: Yes, that is all right.

Mr. ARMSTRONG: This is for the system as a whole. In these two years the traffic handled was approximately equal when measured in physical volume, but the revenue was less in 1939 because of the reduction in rates. In that period, as between 1930 and 1939, with the same volume of business—there was nearly \$50,000,000 less in revenues—we had a reduction of only about a million dollars in our net revenue. What I am endeavouring to show is the measure of improvement between 1930 and 1939. And now, that is brought about by many things: heavier power, heavier rails, improved efficiency of operation—and improvements that have been made, capital improvements. It is very difficult to segregate the better performance to show how much of it was due to increase in the size of cars, increase in size of rail, improvement in efficiency, etc. Does that help you at all?

Mr. DONNELLY: Well, not very much. How much have your wages increased in these times?

Mr. ARMSTRONG: Wages?

Mr. DONNELLY: Yes.

Mr. ARMSTRONG: From 1926?

Mr. DONNELLY: From 1930.

Mr. ARMSTRONG: From 1930—there would be practically no difference between 1930 and 1939 in the average rate of wages because the deductions went into effect in 1931 and continued right up until 1938, part of 1938.

Mr. MACINNIS: What would be the difference in the aggregate wages?

Mr. ARMSTRONG: In the aggregate wages, that is total compensation, we show the total pay roll of 1930 as being \$161,000,000 and in 1939 the comparable pay roll was \$123,000,000. In other words, the physical volume of traffic was approximately equal (the revenue was considerably less), but the pay roll was reduced from \$161,000,000 to \$123,000,000.

The CHAIRMAN: There is a memorandum here showing a comparison of the cash deficit in 1939 as compared with 1931. There are some interesting figures in it. Do you wish to hear that read?

Mr. BERCOVITCH: Anything that is interesting I am sure we should have read, I am sure it would please the committee.

The CHAIRMAN: I will ask Mr. Cooper to read it.

Mr. COOPER: This is a comparison of cash deficits in 1939 as compared with 1931.

"The gross revenues of the system in 1939 amounting to \$203 millions are approximately even with those of 1931 when they were \$200 millions. However, the cash deficit for 1939 was \$40,095,000, as compared with \$60,968, in 1931, an improvement of \$20,873,000.

"The improvement is even greater than indicated if it is remembered we handled 2,474 million more revenue ton miles; that salary and time deductions in effect in 1931 amounted to \$1,877,000; that we doubled the provision for equipment retirements thereby adding \$3,325,000 to our operating costs; that the pension roll increased by \$1,741,000; and that we provided \$1,114,000 for debt discount whereas debt discount was not provided for in the cash deficit of 1931."

That is to say, all of these amounts I have given are additional to the improvement of \$20,000,000. On the other hand, to be quite frank, in the same period our fixed charges were reduced to \$5,600,000 due to the refunding at lower interest rates.

Mr. BERCOVITCH: That is all very interesting. I think it is well to have it on the record.

The CHAIRMAN: Shall the committee rise at one o'clock? It is not quite one o'clock yet, but before we do rise let us decide if we are going to sit this afternoon again, because there is a lot of work to be gone through and it is desirable to finish it as soon as possible. What is the wish of the committee?

Mr. McCULLOCH: Inasmuch as the officials of the C.N.R. are here, I do not think we should keep them any longer than is necessary.

Mr. DONNELLY: I suggest we meet at 4 o'clock.

Mr. MACINNIS: I do not think I can be here, Mr. Chairman, but I do not object to the committee sitting.

The CHAIRMAN: Then we shall meet at 4 o'clock this afternoon.

(At 12.50 the committee adjourned to meet at 4 p.m.)

AFTERNOON SESSION

The Committee resumed at 4 o'clock p.m.

The CHAIRMAN: Order, gentlemen. We have a quorum and we had better get along. I think we were considering "Revenue Tonnage by Commodities" on page 25. If you have fully considered that reading why we will pass on. Are there any questions?

Page 26 deals with "Details of Railway Equipment."

Mr. McCULLOCH: On page 25 there is the question of ties. Lumber prices have gone up considerably but the prices of ties have remained the same. The railroad expects to buy these ties from the small dealers especially in Nova Scotia and New Brunswick at the same prices if not lower than they did two or three years ago. They just name the price and say you may take it or leave it.

Mr. VAUGHAN: All I can say to that is we are paying just as high a price in Nova Scotia as we are in any place in Canada for ties. I do not see how we can single out Nova Scotia and pay them a higher price than others. We seem to be able to get all the ties we need at the price we are paying. In some provinces we are paying considerably lower than we are paying in Nova Scotia.

Mr. BERCOVITCH: Do you buy them in the open market?

Mr. VAUGHAN: No. The way we do in connection with ties is this: we fix a price for ties that we think is fair in that district and we pay everybody in that district the same price for ties.

Mr. McCULLOCH: There are quite a number of people who get contracts for ties who are not in the lumber business at all and that has, I think, given rise to a little discontent. They buy them from the other people and make a profit of five cents apiece on them and they are not in the lumber trade.

Mr. VAUGHAN: I have not got any knowledge of any such people, Mr. McCulloch. Have you any in mind that you can give? We do aim to do business only with these people in the tie or lumber business. There is once in a while a storekeeper or someone of that kind who advances a certain amount to a farmer who goes out and cuts the ties off his farm, and we take these ties from the storekeeper. If we did not do that the farmer would not have any money at all.

Mr. McCULLOCH: The case I have in mind is not a storekeeper.

Mr. VAUGHAN: I have no knowledge of any such case myself. I should be very glad if you give it to me and I would investigate it.

Mr. ROSS: Put it on the record.

Mr. McCULLOCH: It is a small thing but it makes for a little discontent.

Mr. VAUGHAN: What we do is this. We have our local tie man down there investigate each applicant for a tie contract. Our instructions are very explicit. They are that he must not recommend anybody for a tie contract who is not in the tie or lumber business.

Mr. SANDERSON: You do not play any favorites?

Mr. VAUGHAN: No. If they creep in there must be a reason for it.

Mr. McCULLOCH: This is not a case of favouritism or anything like that.

Mr. VAUGHAN: I should like to have the name.

Mr. BERCOVITCH: The price would be necessarily higher if you buy from these people. I do not know how the farmer would benefit.

Mr. VAUGHAN: The farmer of course, usually along with other work cuts a few hardwood trees or something of that kind, and he gets supplies from the storekeeper, goes into the bush along with a son or two and they cut 500 or 1,000 such ties and he turns them in to the storekeeper in payment of his debt, and the storekeeper comes to us and asks us to take them off his hands at the price.

The CHAIRMAN: Have you any suggestions to offer, Mr. McCulloch?

Mr. McCULLOCH: No. I can understand Mr. Vaughan and it is possibly true that the small man gets supplies from the store. As far as the storekeeper is concerned in the country I think probably he is entitled to a contract.

Mr. VAUGHAN: It only happens very rarely, however, but in a very few cases it does happen.

Mr. DONNELLY: Do you creosote your ties?

Mr. VAUGHAN: We creosote about 2,000,000 ties a year.

Mr. DONNELLY: How much longer do you find them to last?

Mr. VAUGHAN: We have more than doubled the life of the tie.

Mr. DONNELLY: How does that compare with regard to cost?

Mr. VAUGHAN: By the time you treat a tie it costs nearly double the untreated tie. We get an average of eight years for a jack pine tie untreated; we get from eighteen to twenty years for a tie when treated.

Mr. DONNELLY: What about the labour?

Mr. VAUGHAN: We save the labour of putting in two or three more ties in the meantime.

Mr. BERCOVITCH: You do that with ties. It would be a good thing if you could do it with the individual.

The CHAIRMAN: Shall we go on to page 26, "Details of Railway Equipment"?

Mr. DONNELLY: Where are your electric and gas cars running?

The CHAIRMAN: Short branch lines?

Mr. ARMSTRONG: You mean diesel electric?

Mr. DONNELLY: Yes.

Mr. ARMSTRONG: That would be shown under unit cars in passenger equipment.

Mr. DONNELLY: You run these cars with one car behind it or two?

Mr. ARMSTRONG: Sometimes two.

Mr. HUNGERFORD: Sometimes one, sometimes two; it just depends.

Mr. DONNELLY: How many men do you have on these cars to operate them?

Mr. HUNGERFORD: That varies a little bit too. We have a man running the car and usually a conductor.

Mr. DONNELLY: Have you a brakeman?

Mr. HUNGERFORD: Sometimes we have a great deal of baggage to handle; sometimes we have two cars and a lot of express and baggage to handle; on a main line operation where you have to flag in the event of breakdown we may have a brakeman.

Mr. DONNELLY: Do you carry a baggage man in that case?

Mr. HUNGERFORD: No.

Mr. DONNELLY: No express man?

Mr. HUNGERFORD: No.

Mr. DONNELLY: What do you carry on main trains, six-car trains?

Mr. HUNGERFORD: That is in the passenger trains?

Mr. DONNELLY: Yes.

Mr. HUNGERFORD: Two men on the engine, a conductor and a baggage man and probably one brakeman under the average conditions. The rules vary a bit on different parts of the system.

Mr. DONNELLY: You carry nearly as much on the small trains as on the big ones?

Mr. HUNGERFORD: No, not quite as much.

Mr. DONNELLY: In the way of running them.

Mr. HUNGERFORD: Generally speaking we can operate these unit cars for just about half the amount of some trains performing the same service.

Mr. DONNELLY: We have this situation: a bus running on the road alongside the track has no maintenance cost, no station agent, no brakeman and no fireman, no express men and one man does the whole thing. You are not competing under fair competition at all.

Mr. BERCOVITCH: They do not have to build the road or maintain it.

Mr. DONNELLY: No.

Mr. McCULLOCH: I notice under box cars you have 3,000 cars less in 1939 than you had in 1938. I am a little interested in box cars because we manufacture them down in Pictou county. I was just wondering if you were going to bring these up to the strength of 1938 in the future.

Mr. HUNGERFORD: The cars that are destroyed are almost invariably cars of small capacity, and the cars that we purchase are those of large capacity; so that one of the new units is equivalent to more than one of the old ones, cars that are twenty to thirty-five years old. So that actually the number of units does not tell the entire story. Answering your question, it all depends on the traffic requirements. If the volume of traffic goes up we will need some more cars.

Mr. McCULLOCH: I hope the traffic goes up.

Mr. HUNGERFORD: So do I.

Mr. SANDERSON: What percentage of box cars do you make yourselves?

Mr. HUNGERFORD: What percentage do we make ourselves?

Mr. SANDERSON: Yes.

Mr. HUNGERFORD: We do not build any box cars at all.

Mr. SANDERSON: Since when?

Mr. HUNGERFORD: We have not for a great many years. Possibly you are thinking of refrigerator cars.

Mr. SANDERSON: No.

Mr. HUNGERFORD: Just box cars?

Mr. SANDERSON: Yes.

Mr. HUNGERFORD: The company has not built any box cars to my recollection. We do, from time to time, place a small order in certain of our shops for refrigerator cars or something of that kind.

Mr. SANDERSON: You just repair box cars?

Mr. HUNGERFORD: We repair them, yes; rebuild them.

Mr. DONNELLY: To revert to the question I was dealing with a moment ago, these small gas cars, have the company at all experimented or tried something that is a real competitor of these buses, a car or something of that kind operated by one man the same as the bus is operated, on the road right beside it?

Mr. HUNGERFORD: We have tried at different times a small unit, one particular kind that may be operated on both rail and road; generally speaking the result has not been very good.

Mr. ROSS: Dealing with the section having to do with locomotives, I wonder if I could get a word from the committee as to this new Marslight they are using in the States. It seems to have been a great success over there.

Mr. HUNGERFORD: I cannot answer that; I do not know what is referred to.

Mr. ROSS: It is apparently a rotating light for protecting the traffic at intersections. An automobile comes up and actually backs away from this new type of light they have on the engine.

Mr. ARMSTRONG: Is it on the engine?

Mr. ROSS: Yes. It is a sort of rotating light or a Marslight. Motorists come up and actually think the train is off the track and coming down the roadway.

Mr. HUNGERFORD: I am sorry; that is something that has escaped me.

Mr. ROSS: It is a safety factor, judging from the report I get from over there. You have no information to offer in that regard?

Mr. HUNGERFORD: No.

The CHAIRMAN: As chairman I probably should not say anything but I have always been concerned with this problem of building cars. The problem of new equipment for the railways has been brought up in this committee time and time again, particularly as to the amount of equipment that was built by the company in proportion to or the ratio that was built by your shop. I understand that less than 10 per cent of these cars are built by the company—one in twenty.

Mr. ARMSTRONG: Hardly that.

The CHAIRMAN: It seems to me, judging by the shops that we have on the road that a much larger proportion could be built. I do not know whether it is feasible or economic, but certainly the men who work for the railway company do raise the mischief about it. I must say that because I have a lot of them in my district.

Mr. HUNGERFORD: The policy of the company is to make all repairs in their own shops and not contract repairs out. On the other hand because of their superior equipment and organization for the construction of new equipment we have always found it advantageous, in the main, to contract for new equipment outside. We could build with a certain amount of difficulty and lack of efficiency a certain amount of equipment, but our plants are primarily designed, equipped and organized to do repair work and we do that entirely ourselves. It is not our policy at the present time to undertake to build new equipment in our repair shops. One is organized for one thing and the other is organized for another. But there is a lot of special equipment like refrigerator cars and the occasional snow plough and things of that kind where we generally do the work in our own shops.

The CHAIRMAN: Of course, your men claim they can build anything, engines, cars, refrigerator cars, coaches, anything at all.

Mr. HUNGERFORD: They might if they were given time and money enough.

Mr. BERCOVITCH: We probably all could.

The CHAIRMAN: I doubt it.

Mr. BERCOVITCH: Given time and money we could accomplish almost anything.

The CHAIRMAN: Are there any other questions? If not, the next heading is statistics of rail-line operation. Are there any questions on that? Then on page 28, statistics of rail-line operation—the same thing.

Mr. HUNGERFORD: That is continued.

Mr. SMART: Those are the averages.

The CHAIRMAN: The next heading is employees and their compensation; then comes distribution of the dollar.

Mr. McCULLOCH: They struck it pretty even between 1938 and 1939, so far as labour is concerned.

Mr. HUNGERFORD: There naturally would not be very much change unless there happened to be a change in the wage level.

The CHAIRMAN: Are there any questions? If not, we will proceed to operated mileage as of December 31, 1939, on page 29.

Mr. HUNGERFORD: That is simply a statement of the track mileage operated.

The CHAIRMAN: Yes. If there are no questions, we have completed the report of the Canadian National Railways.

Mr. HUNGERFORD: Mr. Chairman, there were a number of questions asked this morning that could not be answered offhand, and we undertook to provide answers. We were not able to complete the answers during the intermission between the morning session and this one, but if it is agreeable to you, we will have them finished tonight and submit them in the morning, assuming, of course, that there is going to be a meeting tomorrow. If not, we will submit them at the first subsequent meeting of the committee.

The CHAIRMAN: I suppose we might as well discuss that subject now. Is it the wish of the committee to meet to-night?

Mr. DONNELLY: There is likely to be a division of the house to-night.

The CHAIRMAN: We can very readily leave this meeting and go to a division. If the division comes after we have had an hour or so here, we can adjourn this committee until to-morrow. Are you satisfied to meet again to-night at eight o'clock?

Mr. McCULLOCH: Subject to division in the House, I suppose.

Mr. BERCOVITCH: Let us meet to-night.

The CHAIRMAN: All right. Will all those in favour of meeting to-night please signify? I guess we will meet to-night, then, at eight o'clock.

Mr. SISSONS: Is there any item here, Mr. Chairman, which shows the return the C.N.R. received, if any, from investment in the Northern Alberta Railway?

Mr. HUNGERFORD: Yes.

Mr. COOPER: Our share, which is 50 per cent of the net loss of the Northern Alberta Railway, this last year was \$638,000. The C.P.R. would have an equal amount.

Mr. SISSONS: Are returns furnished monthly by the N.A.R.?

Mr. COOPER: They are made monthly by that company to the Dominion Statistician; but I do not think they are published, except by the statistician.

Mr. SISSONS: I thought the agreement between the C.N.R. and the C.P.R. provided that the return should be made monthly to each one of the companies.

Mr. COOPER: You mean that the company would make a return to the C.N.R. and C.P.R.?

Mr. SISSONS: Yes.

Mr. COOPER: Yes. We get a monthly statement showing their earnings, expenses and all other charges.

Mr. SISSONS: And the C.N.R. take an equal part?

Mr. COOPER: We take up one-half.

Mr. SISSONS: Do they take an equal part in the management of the road?

Mr. COOPER: It is joint.

Mr. SISSONS: There seems to be an impression there that the C.P.R. is the dominant partner and the C.N.R. is really a sleeping partner. I want to get away from the impression. The C.P.R. come into that area talking as if the N.A.R. was the property of the C.P.R. rather than the joint property of the two roads. I should like to see the C.N.R. take a more aggressive public attitude towards that.

Mr. HUNGERFORD: The situation there is that there is an equal number of representatives on the board of directors. The presidency alternates year about. I think perhaps the reason that this impression which you speak of has got abroad is that the present general manager of the Northern Alberta Railways was a former C.P.R. employee. But against that we have certain employees in official capacities on the road. I do not know exactly what you refer to as to the public impression; but, as a matter of fact, the administration of the property is equal and joint.

Mr. Sissons: I just wish to be satisfied on this point. In the agreement between the C.N.R. and the C.P.R. dated January 29, 1929, the last clause provided to this effect:

"The parties agree to co-operate with fairness and candor towards each other, and to give effect to this agreement in the most liberal and reasonable manner to the intent that each of them shall receive its full and equal share of the benefits of the joint undertaking."

That rather looks as if each party was suspicious of the other when that clause was inserted. But what I wish to be satisfied of is this. Is the C.N.R. satisfied that it is receiving a fair deal and that that clause is being carried in the operation of the Northern Alberta Railway?

Mr. HUNGERFORD: Yes, I would think so.

Mr. Sissons: That is all I want.

Mr. DONNELLY: Looking at page 28, it says "ton-miles—revenue freight," referring to the \$17 million. I wonder if it would be possible to get the wage cost per unit of work done. I understand that it is customary to take the ton-mile as the unit of work, as you understand it, in railroading. Is that not right?

Mr. ARMSTRONG: That is for freight traffic.

Mr. DONNELLY: Yes; and the passenger rate you estimate at what—four or five? A passenger-mile would be equal to about four or five ton-miles, would it not?

Mr. ARMSTRONG: That is a very arbitrary formula. They have used the basis of one passenger-mile equal to three ton-miles, sometimes four. Various authorities have different opinions. Three, I think, has probably been used more. As I say that is a very arbitrary figure.

Mr. DONNELLY: Estimating it even at four, would it be possible for you to give us the wage cost per unit of work done in 1913, 1926 and 1932, in the low of the depression, and then this year, 1939.

Mr. ARMSTRONG: For what it is worth, we can give it arithmetically.

Mr. DONNELLY: That is what I want.

Mr. ARMSTRONG: As to whether you can draw any conclusion from it, I certainly would not like to say that you could.

Mr. DONNELLY: I would like you to give us that.

Mr. ARMSTRONG: We can have it done arithmetically.

Mr. DONNELLY: All right.

The CHAIRMAN: Are you through with that report? If so, we will go on to the auditor's report—report and accounts, Canadian National Railway System year ending 31st December, 1939. Do you want this read as we did before?

Mr. DONNELLY: You mean the auditor's report?

The CHAIRMAN: Yes, the letter in the beginning of the report; the preamble, if you will.

Mr. HUNGERFORD: It is rather important.

The CHAIRMAN: I think probably we ought to have it, because we do not want to slight this business.

Mr. DONNELLY: It is not a very long report.

Mr. HUNGERFORD: Would you like Mr. Armstrong to read it?

The CHAIRMAN: Yes, please.

Mr. HANSELL: I do not think we have that.

Mr. BERCOVITCH: I have not got it.

Mr. SMART: It was sent out to each member of the House with the annual report.

Mr. HUNGERFORD: May I bring Mr. Matthews of Touche & Company up to the front, Mr. Chairman?

The CHAIRMAN: Yes, certainly. Do you want him to read his own report?

Mr. HUNGERFORD: Mr. Matthews, will you come up to the front, please? May I introduce him, Mr. Chairman?

The CHAIRMAN: Yes.

Mr. HUNGERFORD: Mr. Chairman and gentlemen, this is Mr. Matthews, of George A. Touche & Company, the auditors of the Canadian National Railway System; and inasmuch as it is his report, with the consent of the chairman, I am going to ask him to read his own report to you; and I think he will be in a position to answer any questions arising therefrom.

Mr. MATTHEWS (reads):

THE HONOURABLE THE MINISTER OF TRANSPORT,
Ottawa, Canada.

SIR,—In pursuance of Sections 13 and 15 of The Canadian National-Canadian Pacific Act, 1936, and Chapter 2, 1939, "An Act respecting the appointment of Auditors for National Railways," we have audited the accounts of the Canadian National Railway System for the year ended 31st December, 1939, and we now submit, through you, our report to Parliament.

We attach hereto the following financial statements of the National System:

Exhibit I—Consolidated Balance Sheet at 31st December, 1939—together with audit certificate.

Exhibit II—Dominion Government—Proprietor's Equity at 31st December, 1939.

Exhibit III—Consolidated Profit and Loss Account—Year 1939.

Exhibit IV—Consolidated Income Account—Year 1939.

Exhibit V—Investments in Affiliated Companies at 31st December, 1939.

Exhibit VI—Major Contingent Liabilities, including Pension Plans, at 31st December, 1939.

CONSOLIDATED BALANCE SHEET

Investments in Properties and Equipment appearing in the books of the companies as at the 1st January, 1923, were accepted by us. As against the corporate property investments brought into the National System accounts in 1923, there have been applied the reductions as authorized by The Canadian National Railways Capital Revision Act, 1937. Since 1st January, 1923, the property additions and betterments less retirements have been shown at cost. The property additions from that date include construction expenditures on certain Branch Lines, the completion of which has been suspended for some years.

Investments in Affiliated Companies, as set out in Exhibit V, are represented in the main, apart from the Trans-Canada Air Lines, by a 50 per cent or less capital stock ownership. The basis of the Balance Sheet figure is cost, or in certain instances special valuations approved by the Interstate Commerce Commission some years ago. The accounting regulations of the Commission, effective up to 31st December, 1939, do not require annual revaluation of Investments in Affiliated Companies on the basis of change in the earnings or financial position of the affiliates. It should be noted, however, that the Commission has issued an amending regulation in respect of security valuations, effective as of 1st January, 1940, which is more restrictive in scope than that previously in force.

The accounts of the National System are stated in Canadian currency—Sterling and United States currencies being converted at the par of exchange.

Major Contingent Liabilities, including Pension Plans, are dealt with in Exhibit VI. In respect of Pension Plans, we would make reference to the fact

that reserves are not set up in the Balance Sheet against pensions presently being paid or conditionally accruing under the 1935 Contractual Plan and prior Non-Contractual Plans. Actual pension payments made at the expense of the railway are charged currently to Operating Expenses. In respect of the Pension Contracts already issued and in force under the 1935 Contractual Plan the railway has made a tentative estimate, which has been accepted by us, showing a capital amount approximating \$13,350,000. This capital estimate does not cover the pensions conditionally accruing under the 1935 Contractual Plan because their future payment is contingent upon the general trend of future railroad employment.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Depreciation Accounting is applied to Equipment owned by the United States Lines. Retirement Accounting is applied on the basis of original cost to Equipment owned by Canadian Lines and to Fixed Properties in both United States and Canada. In our report to Parliament dated 22nd March, 1935, we recommended, conditionally, the adoption of depreciation accounting for Equipment owned by Canadian Lines on the general basis of the Interstate Commerce Commission Depreciation Order No. 15,100 which became effective, in respect of Equipment only, on United States Railroads from 1st January, 1935. The conditional feature of the 1935 depreciation recommendation was the concurrent establishment of uniform accounting regulations, of a mandatory character, applicable to all Canadian railways under the statutory authority of the Dominion.

In view of the altered situation as a result of the war, particularly in respect of equipment retirements, we now unconditionally recommend the adoption of depreciation accounting for Equipment owned by Canadian Lines. During the year 1939 the National System conducted detailed depreciation studies—in which we collaborated—and prepared supporting data which would be of considerable value if the recommendation for such depreciation accounting were adopted.

We would again recommend the establishment at an early date of uniform accounting regulations, of a mandatory character, applicable to all Canadian railways under the statutory authority of the Dominion.

In respect of current maintenance policy we have received certificates from the President to the effect that the Properties and Equipment of the National System have been maintained in a proper state of repair and in an efficient operating condition during the year 1939.

GENERAL SCOPE OF AUDIT

The general scope of the test audit which we have made of the National System for 1939 may be outlined briefly as follows:—

- (a) Examination of major expenditure authorities which were based mainly upon recorded Resolutions of the Directors. These major expenditure authorities in turn have been established mainly by Corporate By-Laws of the Canadian National Railway Company, Statutory and Financing Acts of Parliament and Orders in Council;
- (b) Audit tests in the offices of Regions, Separately Operated Properties and System Headquarters, covering a cross-section of the major expenditures so authorized;
- (c) Examination into the adequacy of the internal audit control in general by the accounting staff of the System. In this connection we work in collaboration with the executive accounting officers at Headquarters having as a mutual objective the securing of maximum internal protection to the System in the control of Cash Receipts and Expenditures,

Securities Held, Material Stores, Accounts Receivable, etc. There is the further objective of bringing about, in due course, a simpler corporate accounting set-up within the System as one of the purposes of the Capital Revision Act, and

- (d) Audit and certification of the Consolidated Balance Sheet, Income and Profit and Loss Accounts for presentation to Parliament, which body is thus placed in possession of facts upon which conclusions can be reached as to the stewardship of the duly appointed administrators of the System.

The audit covered the various Balance Sheet accounting units with Income and Profit and Loss Accounts originating in the Revenue Offices, Regions, Separately Operated Properties and System Headquarters applicable to some 101 companies comprising the National System as an operating entity.

The principal points at which our audit work was carried out were:—

In Canada—Halifax, Moncton, Montreal, Ottawa, Toronto, Winnipeg and Vancouver. In addition, audit tests were made at other points according to special conditions and requirements.

In U.S.A.—St. Albans, Cleveland, Detroit, Chicago and Duluth.

In Europe—London and Paris.

A copy of our Memorandum to the Board of Directors dealing with inactive properties, advance equipment retirements and other internal matters will be despatched to the Minister of Transport in due course.

We report to Parliament that the National System accounts have been maintained, during the year 1939, in an efficient manner and in general accordance with the present rules and regulations prescribed for steam railroads in Canada and those of the Interstate Commerce Commission for lines operated in the United States.

TRANS-CANADA AIR LINES

The Trans-Canada Air Lines have not been included as a constituent unit of the National System although 100 per cent stock ownership of the Air Lines is vested in the Canadian National Railway Company. A separate Balance Sheet and Income Account have been certified by us at 31st December, 1939.

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

The accounts of the Canadian National (West Indies) Steamships, Limited, and subsidiary companies are not consolidated with those of the National System, the 100 per cent stock ownership of the parent company being vested in the Dominion. A separate Consolidated Balance Sheet together with Consolidated Income and Profit and Loss Accounts have been certified by us at 31st December, 1939.

The Self-Insurance Reserve as shown on the Consolidated Balance Sheet does not include any provision for war risks.

In respect of both the Trans-Canada Air Lines and the Canadian National (West Indies) Steamships, Limited, the test audit which we have made for 1939 is similar in scope to that of the National System and may be outlined briefly as follows:—

- (a) Examination of major expenditure authorities embracing mainly the recorded Resolutions of the Directors, Corporate By-Laws, Statutory and Financing Acts of Parliament and Orders-in-Council;

- (b) Audit tests covering a cross-section of the major expenditures so authorized;
- (c) Examination into the adequacy of the internal audit control in general by the accounting staffs of the companies covering Cash Receipts and Expenditures, Securities Held, Material Stores, Accounts Receivable, etc., and
- (d) Audit and certification of the Balance Sheets, Income and Profit and Loss Accounts for presentation to Parliament.

Yours faithfully,

GEORGE A. TOUCHE & CO.

The CHAIRMAN: Are there any questions; do you wish to make any enquiry or interrogation so far?

Mr. BERCOVITCH: Do I understand that there has not been any depreciation accounting practised in connection with the Canadian National Railways?

Mr. MATTHEWS: The policy of the Canadian line since 1923 has been retirement accounting; that is to say, charging to operating expenses all the capital value of equipment less salvage as and when retired. On United States lines, of course, due to the fact that they operate under the mandatory instructions of the I.C.C., they have been obliged to charge depreciation on their equipment; that is, their rolling stock.

Of course, this subject of depreciation has been one of considerable study over the years in these committees, and the situation has reached a point where starting with 1935 when the Inter-State Commerce Commission finally made depreciation obligatory at more or less standard rates—that is to say, rates that have to be approved by the I.C.C.—we felt that the time had arrived for the adoption by the Canadian National on Canadian lines of that type of accounting. Now, there has been a great deal of misunderstanding in past years in respect to Canadian National accounts of this class, both inside and outside of Canada. There have been articles in New York papers in years gone by that held the Canadian National up as a horrible example as to what its result would have been had depreciation been accrued on the usual commercial basis. Unfortunately, a good number of these people have very little if any knowledge as to the actual working of the accounts of the National railways in respect to its retirement policy. The fact that depreciation as a basis of accounting was not adopted up to the end of 1939 does not mean for a moment that the accounts themselves should not give a reasonably fair presentation of operating results. Of course, in the first place, each year the accounts fairly set out that retirement was the basis, not depreciation. But under depreciation accounting the life of the property is spread over a definite number of years based upon the estimated service life, whereas under the retirement accounting basis the charge has to be absorbed at the time the property is retired; and if retirement accounting had been properly administered in past years on United States railroads the chances are that the rather drastic order 15,100 might never have been drawn; because, the fact of the matter was that the retirement policy left open to the managements of the different roads opportunity to retire as and when they saw fit, and in a good many cases according to the operating results of that year. But depreciation accounting spreads it out definitely over a given life.

Now, it might be interesting to observe at this time that depreciation accounting when adopted, and it has been adopted by the board for 1940, will mean that the difference between the old retirement basis and depreciation basis for Canadian lines' equipment will be a very small amount; and the effect is that it sets the accounts of the National railways, so far as rolling

stock is concerned, on a definite depreciation basis comparable in the main with the class 1 railroads in the United States.

Now you ask, what about fixed properties? Well, in 1928 the Interstate Commerce Commission set about to make mandatory the application of depreciation on fixed properties of railroads, but they found that was quite impracticable and ultimately rescinded that mandatory order and left it optional with the carriers. So today it can be said that with the adoption by the directors of the depreciation policy from the first of January, 1940, the National railways in a general way will be on all fours with the class 1 railroads of the United States.

Mr. BERCOVITCH: What is the system used by the C.P.R.?

Mr. MATTHEWS: Up to this time, so far as we know, it has been retirement accounting. I do not know, of course, what the policy is for 1940, but Sir Edward Beatty, in his address to the shareholders, gave some indication that they were thinking of establishing some sort of reserve. I have no means of knowing whether it is the depreciation basis or not.

But the depreciation basis recommended in this report and adopted by the railway is based upon a study of the service lives of the different units of equipment. The important thing for this committee to bear in mind, I think, is that the jump from the so-called retirement accounting to the depreciation basis makes very little difference in the absorbed charge in the operating expenses for the year 1940.

Mr. BERCOVITCH: Would it make any difference in the picture of the Canadian National Railways?

Mr. MATTHEWS: No. It makes very little difference in the net result for 1940. There would be very little difference if you continued the present retirement charges because under retirement accounting, as I say, everything has to be absorbed by operating expenses. Under the depreciation basis, the rehabilitation and modernizing of units of equipment are charges to reserve because of their renewal of life; whereas that now will become a proper charge to the reserve depreciation. So that by and large the charge to operating expense in 1940 will be very little different from what it would have been had retirement accounting been continued.

Is there any other question?

Mr. SMART: Mr. Matthews, this is what Mr. Beatty said.

Mr. MATTHEWS: This is an extract from an address of Sir Edward Beatty given at the annual meeting May 1, 1940:

"It has now become apparent that the amount of the charges for the retirement of such rolling stock as will be available for dismantling in 1940 will be less than last year. It is proposed, therefore, to supplement the retirement charges with an appropriation to rolling stock reserve. It is anticipated that the total charges for the year will be about equal to full depreciation requirements."

That is the only information we have as to the Canadian Pacific Railway.

Mr. HUNGERFORD: Mr. Chairman, I should like to confirm what has just been said. The statement made by Mr. Matthews that the Canadian National has adopted depreciation accounting for equipment is correct. It was adopted effective as of January 1, 1940, and will be in effect in the accounts for this year.

The CHAIRMAN: Shall we have any other items read, or shall we proceed with the last report under the headings?

Mr. BLACK: What is considered to be the life of a freight car? A freight car built how many years ago would be considered as obsolete today?

Mr. COOPER: Thirty-four years.

Mr. BLACK: Will a recently constructed car have a life of thirty-four years?

Mr. COOPER: Yes; it would probably exceed that. As a matter of fact, the modern car can be continued almost indefinitely; you can renew different parts of it. From time to time you can put on new trucks, new tops, new brakes, and, so long as the car is suitable for the traffic, the type of car does not become obsolete. By renewing parts I think you can renew a car and keep it in service indefinitely.

Mr. BLACK: How does that work out with respect to recently constructed locomotives?

Mr. COOPER: We assume a thirty-five year life for locomotives. In figuring depreciation charges, we have assumed for some locomotives a life of thirty-five years. For a diesel locomotive it is twenty-five years.

Mr. BLACK: Its life is a great deal longer than the life of an automobile?

Mr. COOPER: Oh, naturally.

Mr. BERCOVITCH: What is the average cost per car for maintenance?

Mr. COOPER: Maintenance costs for freight equipment last year were \$10,-857,000. The number of freight cars was 88,000.

Mr. HUNGERFORD: There is really no definite life for a piece of equipment. I have personally seen a locomotive in service that was one hundred years old. Units of equipment are generally retired because of obsolescence and owing to changed conditions, are no longer suitable for the purpose or economical to operate, and they are retired on that account. But you understand that a car or a locomotive is taken into the repair shops periodically and put through a general repair. When they come out they are substantially new; every part that is defective has been replaced, and, to all intents and purposes, the machine is as good as when it was built new. That process goes on year after year, so it is quite conceivable that at the end of thirty-five or forty years there is practically nothing of the original unit left; all of the parts have been replaced at the expense of operating expenses.

Mr. BERCOVITCH: What does it cost per car to send those cars to the repair shop?

Mr. COOPER: The average maintenance cost in 1939 was \$150 per car. We can spend up to \$1,000 on a particular unit. We did spend \$1,000 on many units of equipment last year, but the average cost is \$150.

Mr. BERCOVITCH: And the average cost per car new is how much?

Mr. COOPER: About \$3,600.

Mr. VAUGHAN: It would depend on the type of car. The figure of \$3,600 is about right for a modern steel box-car.

Mr. McCULLOCH: Or about 5 per cent a year on an average.

Mr. VAUGHAN: Yes.

The CHAIRMAN: If you have finished with that point, Mr. Matthews would like to make a further statement.

Mr. MATTHEWS: In considering service lives as a basis for normal depreciation I assume we all understand that the overhead element of obsolescence in these days of change is something which is impossible to foresee. I recall now that after the collapse of railway revenue, after 1929, the United States railways which had been on a depreciation basis for equipment found it necessary to charge to their surplus or capital accounts several hundred millions of dollars for retirement of equipment. Even though they had been on a depreciation basis, because of the precipitate change and the falling off in revenues, they found it cheaper to retire their equipment.

Mr. BERCOVITCH: Yes, but would not the income tax be a factor in the depreciation accounting as far as they are concerned? You are not in that position at all.

Mr. MATTHEWS: They would have to settle that, of course, but I want to make clear to the committee that in any estimate of service life and in any estimate of depreciation the element of obsolescence in these days of rapid economic change is one that has to be taken into account as a potential capital loss at some future time.

Mr. Ross: On page 3 you state:

A copy of our memorandum to the board of directors dealing with inactive properties, advance equipment retirements and other internal matters will be despatched to the Minister of Transport in due course.

Is that now in his hands?

Mr. MATTHEWS: Oh yes; the date of this is last March.

The CHAIRMAN: On page 5 is the consolidated balance sheet at 31st December, 1939. Do you want to go into that or shall we pass it by?

Mr. BERCOVITCH: Yes.

Mr. MATTHEWS: They are just confirmatory statements. These are the ones that we certify out of the annual account presented.

The CHAIRMAN: At that rate, gentlemen unless you have some further questions to ask Mr. Matthews, we have completed that report.

Mr. LOCKHART: In connection with the operation of hotels, could we have itemized, first, the number of hotels in operation and any capital expenditures that are made on each with the gross earnings and operating expenses charge against each showing the net revenue from each hotel?

Mr. ARMSTRONG: That was asked for this morning.

Mr. LOCKHART: I am sorry I was not here. Is that being supplied?

Mr. ARMSTRONG: We are supplying that. You mentioned the investment too, did you?

Mr. LOCKHART: I am sorry I could not get here this morning; I had another meeting to attend.

Mr. BLACK: Where does that statement appear? Does that appear in the consolidated balance sheet?

Mr. ARMSTRONG: It appears on page 13, sir, of the Canadian National annual report.

Mr. LOCKHART: That includes salaries being paid?

Mr. ARMSTRONG: It includes everything charged to hotel operation. We were to furnish that for each individual hotel; that is, we were to furnish a breakdown of those figures by hotels.

Mr. COOPER: That was furnished.

Mr. ARMSTRONG: I find it has been handed to the reporters.

Mr. BLACK: Where does the depreciation on hotels enter in?

Mr. COOPER: We do not include depreciation on fixed properties.

Mr. BLACK: What about furnishings and equipment?

Mr. COOPER: The cost of renewing them and keeping them in first class order is an operating expense.

Mr. DONNELLY: You will give the capital invested in each hotel at the same time?

Mr. COOPER: We will add that.

The CHAIRMAN: We shall now deal with the annual report of The Canadian National Railways Securities Trust. Will you read this Mr. Cooper?

Mr. COOPER:

"Ottawa, March 20, 1940.

"The Honourable C. D. Howe,
Minister of Transport,
Ottawa.

SIR,—In conformity with section 23 of The Canadian National Railways Capital Revision Act, 1937, the trustees submit the following report of the transactions of The Canadian National Railways Securities Trust for the calendar year 1939.

"The initial stated value of the capital stock of the Securities Trust has been further reduced by \$2,600,442.11 during the year due to capital losses from certain duly authorized line abandonments made by the railway during 1939 in respect of which His Majesty has not made cash reimbursement to the railway.

The line abandonments in question were:—

	Miles	\$
Middle S/D—Bridgetown to Granville Centre.	7.63	90,957 48
C.V. Ry.—Williamstown Branch.. . . .	3.87	120,006 25
L'Original S/D—Hawkesbury to Hurdman. . .	55.28	1,802,373 89
North Lake S/D—Twin City to Mackies.. .	33.66	587,104 49
		<hr/> \$2,600,442 11

No other business was transacted during the year.

The trustees present herewith the balance sheet of the Securities Trust as at December 31, 1939.

For the Trustees,

W. C. CLARK,
Chairman."

Mr. BERCOVITCH: Would you mind explaining in a few words just what is meant by The Canadian National Railways Securities Trust? I must confess my ignorance, because I should know it. It would enlighten me very much, indeed, if you would briefly tell me what it is.

Mr. COOPER: It is a company established under the Canadian National Capital Revision Act of 1937. To it were transferred the securities of the national railways, consisting of certain capital stocks, loans, advances, and unpaid interest which prior to that date had been held by the government of Canada directly against the national railways; and the securities trust was formed as a holding company in order to facilitate the revision of the capital structure of the Canadian National Railways. Instead of the obligations being directly from the railway and its various subsidiaries to the government it is now to the securities trust, the entire capital of which is held by the Dominion. It was an instrument for the simplification of the capital structure of the Canadian National Railways.

Mr. BERCOVITCH: Thank you very much.

Mr. BLACK: The actual capital was actual capital put up to start this trust organization?

Mr. COOPER: No, there is no cash involved in the new capital set-up. The securities trust issued its capital stock in consideration of the acquisition by it from the government of the securities and advances previously held by the government.

Mr. SMART: It is a piece of machinery.

Mr. HANSELL: It is not really a company.

Mr. COOPER: No, more a trusteeship.

Mr. HANSELL: A joint parliamentary committee would be the proper term.

Mr. SMART: It was created under the Canadian National Revision Act, Capital Revision Act.

The CHAIRMAN: Are there any further questions there? We now come to this balance sheet. Does it correspond with the other balance sheets?

Mr. SMART: It corresponds with the one that is shown on page 12, Dominion Government—Proprietor's Equity, under the profit and loss account.

Mr. HANSON: Has anything been done to reduce some of these demand notes which carry 6 per cent interest? Has anything been done this year?

Mr. COOPER: No; there was no change during the year in the holding of the trust so far as these demand notes are concerned. The notes still carry interest at 6 per cent although collection of interest, of course, is an impossibility and the accruing of interest was suspended by authority of the trustees.

Mr. HANSON: Are these demand notes held by individuals or by the government?

Mr. COOPER: Held by the securities trust against the railway.

Mr. HANSON: I mean the outstanding individuals. Are these notes held by individuals or corporations?

Mr. COOPER: The securities trust holds the demand notes against the railway company.

Mr. HANSON: It seems quite a bit of interest to be paying.

Mr. SMART: It is not paid.

Mr. HANSON: It is set out here; it is a government security.

Mr. SMART: It was accruing previously all the time. Now they have wiped it off by putting it here. There is no actual interest paid.

Mr. DONNELLY: What is meant by "cremation" certificates?

Mr. COOPER: When securities are destroyed the trustees under the deed of trust generally require production of a cremation certificate, that is evidence of cremation, certified by responsible officers of the company and the trustees.

Mr. BERCOVITCH: Proof that it is legally dead.

Mr. HANSON: We have this 6 per cent piling up?

Mr. SMART: No; we do not pile it up any more. That is just it. The railway company does not pile it up.

Mr. HANSON: You did until 1937.

Mr. SMART: That was wiped off by the creation of this company.

Mr. HANSON: You did.

Mr. ROSS: What is the amount of the initial set-up value of the capital stock?

Mr. COOPER: Five million shares issued. The original set-up value was \$270,037,000. This has been reduced to the end of 1939 to \$264,000,000.

The CHAIRMAN: Are there any other questions in connection with this balance sheet?

Mr. HANSON: What is the average interest paid, Mr. Chairman, on securities that really are interest bearing? What is the average we are paying this year?

Mr. COOPER: A fraction under 4 per cent.

Mr. HANSON: Four per cent?

Mr. COOPER: A very slight fraction under 4 per cent; practically 4 per cent.

The CHAIRMAN: We now come to the annual report of the Canadian National West Indies Steamship Limited. Who is going to read this report?

Mr. HUNGERFORD: I think Mr. Armstrong may read it. Mr. Vaughan will be prepared to answer questions.

Mr. ARMSTRONG:

ANNUAL REPORT

MONTREAL, 19th March, 1940.

THE HONOURABLE C. D. HOWE,
Minister of Transport,
Ottawa.

SIR,

On behalf of the Directors, I beg to submit the Annual Report of Canadian National (West Indies) Steamships, Limited, for the year ended 31st December, 1939.

Notwithstanding the unfavourable conditions prevailing in the last four months of the year, brought about by the declaration of war, it is gratifying to be able to report a surplus after making provision for bond interest.

The comparative operating results were as follows:

	1939	1938	Decrease	Per Cent
Operating Revenues.. . . .	\$4,642,306.28	\$4,915,355.40	\$273,049.12	5.56
Operating Expenses.. . . .	4,018,446.85	4,169,115.63	150,668.78	3.61
Operating Profit.... .	\$ 623,859.43	\$ 746,239.77	\$122,380.34	

Operating revenues decreased \$273,049 during the year. Freight revenue decreased \$4,645; passenger revenue decreased \$215,043; and miscellaneous revenue decreased \$53,361. Freight revenue was only slightly less than in 1938, although there were five fewer completed voyages. There was an increase in export tonnage, but a larger decrease in import tonnage, including a decrease of 250,979 stems of bananas. Passenger revenue was adversely affected by the war. Miscellaneous revenue decreased as no charter was secured in 1939 for the ss. *Cornwallis*.

Operating expenses were reduced by \$150,669, largely as a result of the fewer number of voyages completed during the year. The crews are being paid a war bonus and in other respects the cost of operating under war conditions has been increased.

After payment of bond interest, but before depreciation and interest on Government advances, there was available \$153,859.43, which will be paid to the Government as interest on advances. The corresponding figure in 1938 was \$276,239.77.

The vessels of the fleet were operated during the year without serious casualty and have been maintained in a high state of efficiency.

The Directors take this opportunity of expressing their appreciation of the continued loyal and efficient services rendered by the company's officers and employees, particularly under the stress of war time conditions.

For the Directors,

L. J. HUNGERFORD,
President.

Mr. LOCKHART: Could we have some information on the war bonus being paid these men?

Mr. VAUGHAN: They are paid 25 per cent on their wages.

Mr. HANSON: The steamships on the Pacific coast belonging to the company, are they in a separate report?

Mr. ARMSTRONG: They are included in the annual report of the Canadian National Railway system.

Mr. BLACK: Has there been an increase in freight charges applicable to this war bonus? When did it become effective?

Mr. COOPER: September 10.

Mr. BLACK: Was there an offsetting increase in freight charges?

Mr. VAUGHAN: Yes; there was an increase in the freight charges approximately 25 per cent at the same time.

Mr. HANSON: I am sorry I could not be here this morning. I should like to have some information with regard to the steamships that were sold on the Pacific coast, the *Prince Charles* and the *Prince John*. To whom were they sold and how much was received for them?

Mr. HUNGERFORD: I will answer that.

Mr. HANSON: Also if the crews on these steamships were taken care of or provided for in the transfer.

Mr. HUNGERFORD: The *Prince Charles* and the *Prince John* were engaged in the Vancouver-Queen Charlotte service, as you know. That was a highly unprofitable service. We were losing a lot of money, notwithstanding the subsidy. They were eventually sold to the Union Steamship Company who are going to make their own arrangements with the government with regard to the maintenance of the service, whatever it may be. As far as the crews are concerned, that is in the process of adjustment now. Some of them are exercising their seniority and going over on the *Prince Rupert* and the *Prince George* service. Others are going to the Union Steamship Company and there may be a residue left. However, we do not know. The matter is being dealt with in detail by the local officers at Vancouver at the present time.

Mr. HANSON: In other words they maintain their seniority.

Mr. HUNGERFORD: They can exercise their seniority in so far as our service is concerned. The Union Steamship Company have agreed to take over as many of them as wanted to go and are prepared to take service with them.

Mr. HANSON: Is it permissible to have the price paid?

Mr. HUNGERFORD: The price paid for the two ships was \$80,000.

Mr. HANSON: Each?

Mr. HUNGERFORD: No, the two.

Mr. HANSON: For the two.

Mr. HUNGERFORD: For the two of them. We had them surveyed carefully before and explored other markets. We could not find we could get any more money or as much from any other source. We had been losing somewhere in the neighbourhood of \$40,000 a year on that service.

Mr. BLACK: What did these boats cost?

Mr. HUNGERFORD: They cost rather a large sum years ago. Perhaps we can find the figures here.

Mr. SMART: How old are these things?

Mr. HUNGERFORD: One was built in 1907 and the other one in 1910.

Mr. COOPER: The *Prince Charles* cost \$287,000 and the *Prince John* \$148,000.

Mr. ARMSTRONG: The *Prince Charles* was built in 1907 and the *Prince John* in 1910.

Mr. BLACK: How many other boats were disposed of during 1939?

Mr. HUNGERFORD: We have sold to the government the *Prince Robert* and the *Prince David* for war purposes.

Mr. BLACK: The steamship company sold them?

Mr. HUNGERFORD: As a matter of fact the government practically expropriated them, just took the vessels.

Mr. ROSS: I see the capital loss on the *Prince Henry* was about \$1,000,000. Have you any information on that as well?

Mr. HUNGERFORD: The *Prince Henry* was sold in 1938 to the Clark Steamship Company. That company operated in the Gulf of St. Lawrence generally and they sometimes provided cruise service to the West Indies.

Mr. ROSS: She was on the Pacific run, on the Pacific side?

Mr. ARMSTRONG: She was built for the Pacific Coast.

Mr. SMART: She was not used there. She was on the St. Lawrence operated by the Clarke Steamship Company of Quebec. They bought her.

Mr. HUNGERFORD: The three vessels were alike—that is, the *Henry*, *Robert* and *David*. They were all built at one time, back about 1930, for Pacific coast service. Generally speaking, they were not suitable for the kind of service that was contemplated at the time, and there has been very substantial loss in connection with them.

Mr. ROSS: What was the original cost of the *Prince Henry*?

Mr. HUNGERFORD: Roughly speaking, about \$2,160,000.

Mr. BLACK: Where do you find the inventory making up those figures on page six, investment, as of 31st December, 1938, \$10,969,000.

Mr. ARMSTRONG: You are speaking now of the Canadian National West Indies Steamships?

Mr. BLACK: Yes.

Mr. SMART: Do not let us get confused. There is this Canadian National West Indies Steamship which is a corporation and they own certain boats. But the *Prince Henry* and *Prince George* and those boats belong to the railway company, not to this steamship company.

Mr. BERCOVITCH: Were the vessels mentioned in the balance sheet of the Canadian National West Indies service taken at cost?

Mr. COOPER: Yes, they are at cost. The ships themselves are shown on page ten.

Mr. SMART: Yes, page ten of the report.

Mr. DONNELLY: What do you estimate the life of one of those boats to be?

Mr. HUNGERFORD: Well, that is a debatable question.

Mr. COOPER: Twenty-five years. You are speaking of the West Indies boats?

Mr. DONNELLY: Yes.

Mr. COOPER: Twenty-five years is the estimated life that we took to establish the depreciation rate.

Mr. DONNELLY: What about this one on the west coast? She was built in 1907, you say, and sold?

Mr. COOPER: It is quite a different service, and I think you would have to take the difference in service into consideration. A boat on the Pacific coast operating in sheltered waters is quite a different proposition from that of the West Indies' ships.

Mr. BERCOVITCH: There would be less wear and tear.

Mr. COOPER: Yes. Twenty-five years is the common practice on ocean-going passenger vessels, for Cunard White Star, Furness, Withy and other companies. I made a general survey of ocean-going passenger vessels throughout the world, and I came to the conclusion that twenty-five years was the general average life for depreciation purposes.

Mr. DONNELLY: I just noticed that one of these boats you say was built in 1907, so she is getting along.

Mr. COOPER: They have been operating continuously. They are in what we would call branch line service.

Mr. HUNGERFORD: The *Prince Charles* I think is the one you refer to. It was pretty well in continuous service during that period, but it varied at different times of the year. In some parts of the year the service was less frequent. It was quite an old ship.

Mr. LOCKHART: While we are on that, I should like to ask how that compares with the age of boats operating on inland waters. What would be the average life of a boat used for passenger service, having regard to safe operation?

Mr. HUNGERFORD: We have boats on inland waters. I think we could answer that.

Mr. LOCKHART: The Canadian National Railway have. I am asking that for general information.

Mr. VAUGHAN: There are boats operating on the lakes which are fifty years old and still in good condition.

Mr. LOCKHART: You consider them okay at fifty years of age?

Mr. VAUGHAN: Yes.

Mr. COOPER: We have a vessel operating between Detroit and Windsor; I think it is sixty years old.

Mr. ROSS: I worked on the old *Huron* thirty-two years ago. She is going yet, stronger than ever.

Mr. VAUGHAN: Those boats operate only part of the year.

Mr. HANSELL: I am a bit confused, Mr. Chairman, as to just what this company is. It was stated a little while ago that a couple of boats were sold to the government. Is this not a government institution? If it is not, what has it got to do with us?

The CHAIRMAN: I wish you gentlemen would talk a little louder. I may be failing in my faculties, but I cannot hear a good deal of what goes on myself.

Mr. ARMSTRONG: There is confusion between the two companies, as I understand it.

Mr. HANSELL: I am confused as to what this company is, and my confusion arises from the statement that the company sold to the government a couple of boats. I am under the impression that this is a government institution. If it is not, what have we got to do with it?

Mr. SMART: This company did not sell them. This company was organized to carry out a trade treaty with the West Indies. The stock of it is entirely owned by the Dominion government and it is operated really by the directors of the Canadian National for the government. Really, that is the position it is in. On page 10 you will find the boats and their names that are actually owned by this corporation.

Mr. HANSELL: Yes, I see.

Mr. SMART: In addition to that, the railway company itself had certain boats which were mostly operated or built for a movement up the coast of

British Columbia. The accounts for those are consolidated in the railway accounts. This thing is a separate thing altogether.

Mr. HANSELL: I see.

Mr. BLACK: Where do we get the detailed statement of the boats operated outside of this Canadian National West Indies steamships?

Mr. SMART: It would be in the Canadian National Railways accounts.

Mr. BLACK: It is just a consolidated statement.

Mr. SMART: Yes.

Mr. BLACK: There is no detail.

Mr. COOPER: We have only two boats left now, the *Rupert* and *George*.

Mr. BLACK: How did the amount realized on the one disposed of last year compare with the cost?

Mr. HUNGERFORD: Very much less.

Mr. BLACK: Or how did the amount realized compare with the value as represented on the inventory of the previous year?

Mr. HUNGERFORD: Very much less.

Mr. BLACK: The amount realized was very much less than the value as carried on the previous year's inventory?

Mr. HUNGERFORD: Yes.

Mr. BLACK: How much would that be?

Mr. HUNGERFORD: Have you got the figures?

Mr. COOPER: The cost of the ship was \$2,160,000; the sale price was \$500,000. You are speaking of the ship sold in 1938?

Mr. BLACK: Yes. And how is that loss in capital value accounted for?

Mr. COOPER: We divided the loss into two parts. The portion from the date it entered service to the date of the sale was a charge against operation; and we took it up as such. The portion of the loss represented by the unexpired service life—that is from the date of sale to the end of its potential useful life—was treated as a capital loss. It was a loss of capital. But that loss was not service consumed in operation. It was purely a loss of proprietor's capital and it was charged to the proprietor's equity account which, in other words, is the equity which the Dominion government has in Canadian National Railways. If the Dominion suffers a capital loss, as it did in that sale, we charge it to the proprietors through that account as distinguished from an operating deficit of the railway which, of course, is also charged to them in a different way.

Mr. BLACK: Where is that capital loss and operating loss set out in the report before us?

Mr. COOPER: The sale that we are speaking of took place in 1938, and you will have to go to the accounts of 1938 to pick it up.

Mr. BLACK: Yes.

Mr. COOPER: But it is in the accounts of 1938 as I described it.

Mr. BLACK: In this consolidated balance sheet of the Canadian National West Indies Steamships Limited there is a total investment represented by vessels of \$10,960,957.71. Then there is a deficit on the other side of \$10,671,264.89—almost the exact amount as represented by the investment value. What becomes of that deficit? How is that ultimately dealt with?

Mr. COOPER: At the present time, or for the last two or three years, the line has been showing an operating profit. But this deficit is made up of what I would term a cash deficit and a book-keeping deficit. The cash deficit amounting to some \$5,000,000—shown on the balance sheet here as \$5,059,000—was advanced by the Dominion to the Canadian National (West Indies) Steamships Limited. Of the remainder of the deficit of \$10,000,000—\$3,390,000

—represents accrued depreciation; and the remainder represents interest on advances by the government for capital and deficits, amounting to \$2,190,000. Those figures are set out in the balance sheet. The deficit of \$10,671,000 is made up of these three things: the actual cash loss in the operation of the line, \$5,059,000; interest due to the government on its advances \$2,190,000 and accrued depreciation of \$3,390,000.

The CHAIRMAN: Are there any other questions?

Mr. LOCKHART: This line is operating at a distinct loss at all times?

Mr. COOPER: I beg your pardon?

Mr. LOCKHART: This line is operating at quite a distinct loss?

Mr. COOPER: Oh, no.

Mr. LOCKHART: I could not hear but a part of what was said. I quite agree with the chairman. You can just hear part of what is said. Maybe I misunderstood. I am sorry.

Mr. COOPER: In 1939 the line had an operating profit of \$623,000.

Mr. LOCKHART: From the way it appears here I thought it was a deficit.

Mr. COOPER: Against that we must charge bond interest of \$470,000 and that produces a net profit of \$153,000.

Mr. LOCKHART: Yes?

Mr. COOPER: That is exclusive of interest and depreciation; \$153,000 is the cash profit, and that was turned over to the government.

Mr. LOCKHART: I misunderstood the previous remark.

Mr. BLACK: I do not understand the consolidated balance sheet; assets are shown at \$13,733,948.96, and liabilities, the same figure, set out there, quite as you would expect; but it does not add up.

Mr. COOPER: It does, sir; if you consider the deficit as a deduction from the other liabilities. It is a debit account in profit and loss. If it were shown on the asset side of the balance sheet—which, of course, is not correct—the addition would be a simple one.

Mr. BLACK: That is, the profit and loss deficit should really be on the asset side.

Mr. COOPER: Well, I do not think it should, because it is not an asset; and it is customary to show deficits on the liability side, it is shown in italics to indicate that it is a deduction from the other items. It is a red ink figure.

The CHAIRMAN: Are you satisfied, gentlemen? If so, we will go on to something else.

Mr. LOCKHART: We have to be satisfied, Mr. Chairman, if you are.

Mr. COOPER: Well, gentlemen, if there is anything which is not clear—

The CHAIRMAN: Well, the meeting is in the hands of the committee. I do not want to be unduly hasty.

Mr. ROSS: We can refer back to this business.

The CHAIRMAN: Yes, we can return to that account. I do not want to rush proceedings.

Mr. SMART: What is it you had in mind, Mr. Lockhart?

Mr. LOCKHART: I am going to study this thing. I am still confused in my mind, but I might ask a question at some later time. Likely I am from Missouri.

Mr. COOPER: Yes, I will be glad to answer at any time.

The CHAIRMAN: There is no need for us to go over the report under the separate headings because you have been considering all parts of it now, I dare say, so we will pass on. The next is Trans-Canada Air Lines.

Mr. LOCKHART: What is the arrangement about the time for us to meet again?

The CHAIRMAN: I thought it was agreed by the committee that 8 o'clock to-night would be the time for our next sitting.

Mr. BLACK: I think we should have a chance, if we are to deal with this clearly, to examine these accounts and then probably have some further information should we desire it.

The CHAIRMAN: Well, it is up to you. Make up your minds, that is all. Let us decide now whether we are to convene again to-night at 8 o'clock.

Mr. SMART: Well then, would you convene to-morrow morning?

The CHAIRMAN: Oh, yes, we meet again to-morrow.

Mr. SANDERSON: If memory serves me right we decided that we would meet to-night at 8 o'clock. We took a vote on it.

The CHAIRMAN: Well then, it is settled. The only thing we have to decide is whether we are going to sit to-morrow or not.

Mr. DONNELLY: I would move that we adjourn if we are to sit to-night at 8 o'clock.

Mr. BLACK: What is it proposed to take up this evening?

The CHAIRMAN: This report on Trans-Canada Air Lines.

Mr. BLACK: And what other reports are before the committee? I, of course, was not able to be here this morning.

The CHAIRMAN: Then there are some budget items here for the C.N.R. budget for 1940.

Mr. BLACK: Is that before the members of the committee in detail?

The CHAIRMAN: Yes, I think so. There is a pamphlet still to be distributed. Then we have the estimates here before us for consideration of votes Nos. 445, 446, 459 and 460. The budget of the C.N.R. for 1940 is to be distributed by representatives of the railway immediately.

Mr. BLACK: Mr. Chairman, when could we have the figures applicable to the hotels; will they be available this evening?

The CHAIRMAN: Mr. Cooper says that that information will be available to-night.

Mr. ROSS: Was it your intention to endeavour to wind up to-night?

The CHAIRMAN: I don't think we could possibly wind up to-night, it would take quite a little bit of time to-morrow.

Mr. HANSELL: Mr. Chairman, it is getting on towards 6 o'clock and we have a lot of figures and details to go over.

The CHAIRMAN: Well, the committee stands adjourned, we are only waiting for this budget of the Canadian National for 1940 to be distributed to members. As soon as you get your report you may go.

The committee adjourned at 5.45 o'clock to meet again this day at 8 o'clock, p.m.

NIGHT SESSION

The committee resumed at 8 o'clock p.m.

The CHAIRMAN: Order. It was decided before the dinner recess that we would proceed with the examination of the report of the Trans-Canada Air Lines when convening to-night.

Mr. HARRIS: Just before you proceed with that, have we a clear understanding that inasmuch as the budget for the coming year of the Canadian

National Railways and the Canadian National Steamship has just been tabled, we will have an opportunity of going into the matter that is contained here. I have in mind this: what is gone is gone and what is contained in the report which you passed nothing can be done about, but there is ample opportunity for—

The CHAIRMAN: Mr. Harris, it was passed with the understanding that we could revert to it and ask what questions we desired after looking through its pages to-night.

Mr. HARRIS: With that understanding—

The CHAIRMAN: It was passed with that understanding.

Mr. HARRIS: When do you propose to go on with the budget?

The CHAIRMAN: To-morrow. We shall now deal with the Trans-Canada Air Lines annual report for 1939.

Mr. HUNGERFORD: Would you like one of these gentlemen to read it?

The CHAIRMAN: Yes.

Mr. HUNGERFORD: Mr. English will read it.

Mr. ENGLISH:

TRANS-CANADA AIR LINES

THIRD ANNUAL REPORT

OF THE

DIRECTORS OF TRANS-CANADA AIR LINES

YEAR ENDED 31ST DECEMBER, 1939

To the Shareholders:

The Board of Directors submit herewith the Third Annual Report of Trans-Canada Air Lines, being for the year ended 31st December, 1939.

OPERATIONS AND DEVELOPMENT

The close of the year 1939 saw the completion of what might be termed the first stage in the development of the company's operations. During the year passenger service inaugurated between Montreal, Toronto and Vancouver, between Montreal, Ottawa and Toronto, and between Lethbridge and Edmonton; mail and express service was extended to Moncton. The company's ground facilities and personnel were established to meet the requirements of a 24-hour-a-day operation and the flight training program was advanced to provide a full complement of trained personnel for the services operated and for the extensions immediately contemplated.

For ready reference the principal events of the year, and contemplated developments for 1940, are set forth below:—

Principal Events of the Year

February 1st.—Service to Calgary established.

March 1st.—Regular air mail and air express service established between Montreal, Toronto and Vancouver on night schedule.

March 1st.—Additional daily service inaugurated between Lethbridge, Calgary and Edmonton.

July 18th.—Air mail, passenger and air express service inaugurated between Montreal, Ottawa, and Toronto via Muskoka.

November 1st.—Service established between Moncton and Toronto on a daylight schedule, mail and express only being carried between Moncton and

Montreal, and passengers, mail and express between Montreal, Ottawa and Toronto. The inauguration of this service provided a second daily schedule between the three latter cities.

Contemplated Developments, 1940

Additional daily service between Montreal, Toronto and Vancouver, on or about April 1st.

Service between Toronto, London and Windsor, on or about July 1st.

Service between Toronto and New York, and Toronto and Buffalo.

The CHAIRMAN: Do you want to ask any questions so far as we have gone?

Mr. HARRIS: I should like to refer to the service between Toronto, London and Windsor, which is said to go into effect on or about July 1st.

Mr. COLYER: The inauguration of that service depends on when the fields at London and Windsor will be ready to start service. We are prepared to start service just as soon as the air ports at these two places are ready. We are informed the fields will be ready on or about August 1st.

Mr. McCULLOCH: You are a little ahead of Moncton.

Mr. HUNGERFORD: The passenger service has been restored now.

Mr. COLYER: The Moncton passenger service was started on the 15th of February.

The CHAIRMAN: Are there any other questions on this section of the report?

Mr. ENGLISH:

Operating Conditions and Performance:

Operating conditions throughout the year were on the whole quite favourable. There were no accidents involving injury to passengers or personnel.

Mr. HARRIS: We can all read this quite readily. Have you any general statement to enlarge on the contemplated developments other than these three lines?

The CHAIRMAN: We found it pretty satisfactory so far to read the introductory report.

Mr. HARRIS: Who is the witness here now? What is his official position? What is his name and what is his official position?

The CHAIRMAN: His name is Mr. English.

Mr. HARRIS: What is his official position?

Mr. HUNGERFORD: This is Mr. Colyer, vice-president of Trans-Canada and Mr. English is his assistant.

Mr. HARRIS: Assistant to the vice-president?

Mr. HUNGERFORD: Yes.

Mr. HARRIS: He is the gentleman who is reading the report now? He is the gentleman we can question?

The CHAIRMAN: If you will address the chair it will get to whoever should answer this.

Mr. HARRIS: I should like to ask one question. I have not a clear conception in my mind of how closely associated the Trans-Canada Air Lines and the Canadian National system are; I cannot see in this report the proper place to ask the following questions, namely: The purchasing of supplies for the Trans-Canada Air Lines. Is that done through the purchasing department of the Canadian National Railways or have they their own purchasing department? What is his name and what is his official position?

The CHAIRMAN: I believe it is customary to run through the report first and then put your interrogation afterwards.

Mr. HARRIS: That will be all right.

The CHAIRMAN: I believe that has been the practice.

Mr. ENGLISH:

Operating Conditions and Performance:

Operating conditions throughout the year were on the whole quite favourable. There were no accidents involving injury to passengers or personnel.

The following statistics demonstrate the growth and expansion of the company's operations:

Route Miles operated

December 31st, 1938		December 31st, 1939	
Toronto—Vancouver..	2,291	Moncton—Vancouver..	2,839
Montreal—North Bay..	307	Ottawa—Toronto..	228
Lethbridge—Edmonton..	288	Toronto—North Bay..	187
Seattle—Vancouver..	122	Lethbridge—Edmonton..	288
		Seattle—Vancouver..	122
	<hr/> 3,008 <hr/>		<hr/> 3,664 <hr/>

Scheduled Miles—Daily

Toronto—Vancouver (1 round trip)..	4,582	Montreal—Vancouver (1 round trip)..	4,822
Montreal—North Bay—Toronto (1 round trip)..	988	Moncton—Toronto (1 round trip)..	1,532
Lethbridge—Edmonton (1 round trip)	576	Montreal—Toronto (1 round trip)..	676
Vancouver—Seattle (2 round trips)..	488	Toronto—North Bay (1 round trip)..	374
		Lethbridge—Edmonton (2 round trips)	1,152
		Seattle—Vancouver (2 round trips)..	488
	<hr/> 6,634 <hr/>		<hr/> 9,044 <hr/>

The CHAIRMAN: Does anybody wish to ask a question in connection with these tables before we go on?

Mr. LOCKHART: Not in connection with the tables, no.

Mr. BLACK: I should like to ask a question in regard to branch lines. As I understand it Halifax ultimately will be one of the terminals, I suppose, of this branch line operating now between Moncton and Halifax. I understand that is not referred to here. On what basis does that work?

Mr. HUNGERFORD: That service is not being operated by Trans-Canada Air Lines.

Mr. BLACK: Well, what is the connection between the two services? Are they operated one in conjunction with the other?

Mr. HUNGERFORD: They connect at the same air port at Moncton.

Mr. McCULLOCH: The same will apply to Charlottetown.

Mr. BLACK: Is that a separate company operating?

Mr. HUNGERFORD: Entirely separate.

Mr. BLACK: Is there any contract or working agreement between these companies and the Trans-Canada Air Lines?

Mr. HUNGERFORD: I am sorry; I did not get that.

The CHAIRMAN: Is there a working arrangement between these other companies and the Trans-Canada Air Lines?

Mr. HUNGERFORD: The Canadian Airways has a contract with the Post Office Department to provide services at Moncton.

Mr. BLACK: Is there any contract or agreement between Trans-Canada Air Lines and these other companies, making connection at Moncton and Halifax and between this service and Halifax and Charlottetown?

Mr. HUNGERFORD: No.

Mr. COLYER: Of course, the schedules are arranged to provide direct connection at Moncton with the planes flying to Halifax, Charlottetown and Saint John in both directions; but there is no inter-company arrangement but two separate and distinct operations. The schedules are controlled by the Post Office Department.

Mr. BLACK: Who controls and operates these other lines?

Mr. COLYER: Canadian Airways is the name of the company.

Mr. BLACK: A privately operated company. They are privately operated companies?

Mr. COLYER: Yes, sir.

Mr. DONNELLY: They control most of these feeder lines too.

Mr. COLYER: They have the feeders out of Moncton to Charlottetown, Halifax and Saint John. They also operate a feeder service from Vancouver over to Victoria, and these are the only connections they have with us. Prairie Airways and other private corporations operate from Regina up through Saskatchewan.

Mr. BERCOVITCH: Does the Canadian National and the Trans-Canada Air Lines control any of the stock of these two companies?

Mr. HUNGERFORD: No. The Canadian National Railways has a small interest in Canadian Airways of many years back.

Mr. DONNELLY: Canadian Airways have branch lines running into Edmonton?

Mr. COLYER: They have a branch line operating out of Edmonton. Trans-Canada operates from Calgary, Lethbridge and Edmonton.

Mr. DONNELLY: There is more or less a branch line from the main line from Regina, Lethbridge to Calgary, so far as the Trans-Canada is concerned.

Mr. HUNGERFORD: Yes, sir. Then, there are independent services north from Edmonton. We are not identified with them in any way.

Mr. LOCKHART: Is there rental paid for landing privileges by both Trans-Canada Air Lines and the independent companies?

Mr. COLYER: There is by Trans-Canada Air Lines and I presume—

Mr. LOCKHART: Do they pay the same landing privileges or are arrangements made independently one from the other?

Mr. COLYER: It is made independently one of the other. We make our own arrangements with the Department of Transport or the municipality, whichever controls the air port.

Mr. LOCKHART: You would not be in a position to say whether your landing privileges are paid on the same basis?

Mr. COLYER: No, I could not say definitely. I believe the Department of Transport, where it controls the air port, has a standard charge for the use of the air port. We pay that as well as the other operating companies.

Mr. SMART: It is a standard charge, Mr. Lockhart.

Mr. BLACK: What is the policy of the Trans-Canada Air Lines with respect to the Atlantic terminals. I understand they will be in Nova Scotia. I understand the terminal will be at Halifax rather than Moncton.

Mr. HUNGERFORD: There is no policy determined in regard to that that I know of. Moncton is the last place where there are facilities that are suitable for the use of planes.

Mr. BLACK: Has there been a policy or plan laid down?
Mr. SMART: Not up to the present, sir.
Mr. BLACK: Not up to the present?
Mr. SMART: No.
The CHAIRMAN: Are there any other questions?
Mr. ENGLISH:

	Plane Miles Flown 1939			Hours Flown 1939			Percentage of Scheduled Performance
	Revenue	Training	Total	Revenue	Training	Total	
January..	194,130	38,228	232,358	1,203	220	1,423	97.4
February	175,992	28,125	204,117	1,114	161	1,275	98.1
March	216,805	18,224	235,029	1,388	110	1,498	97.1
April	216,003	30,042	246,045	1,294	177	1,471	99.8
May	223,510	28,676	252,186	1,380	163	1,543	100.0
June	217,450	16,660	234,110	1,383	98	1,481	99.8
July	235,131	30,281	265,412	1,502	171	1,673	100.0
August	252,043	52,034	304,077	1,599	292	1,891	99.9
September	239,746	36,290	276,036	1,530	204	1,734	99.3
October	245,018	33,442	278,460	1,554	195	1,749	97.4
November	274,552	27,498	302,050	1,741	154	1,895	98.1
December	269,710	25,803	295,513	1,715	151	1,866	91.4
Total	2,760,090	365,303	3,125,393	17,403	2,096	19,499	98.1

	Planes Miles Flown since Inception of Operations			Hours Flown since Inception of Operations		
	Revenue	Training	Total	Revenue	Training	Total
Sept. 1, 1937, to Dec. 31, 1937	26,596	74,372	100,968	196	493	689
Year 1938	1,122,179	826,167	1,948,346	7,266	5,285	12,551
Year 1939	2,760,090	365,303	3,125,393	17,403	2,096	19,499
Total	3,908,865	1,265,842	5,174,707	24,865	7,874	32,739

The CHAIRMAN: Are there any questions on these tables before we proceed?

Mr. BERCOVITCH: I see you have a heading here "Revenue." What do you mean by that? Is that the actual revenue of Trans-Canada?

Mr. ENGLISH: No; it is the miles flown in revenue service. Training miles are miles flown training a pilot. There is no revenue from training miles; you might say it is a development expense. Revenue miles are miles in which revenue was received either from the Post Office Department or from passenger service.

The CHAIRMAN: Let us proceed.

Mr. ENGLISH:

AIR MAIL SERVICE:

Regular air mail service was established between Montreal, Toronto and Vancouver, and between Lethbridge and Edmonton, on December 1st, 1938, on a daylight schedule. On March 1st, 1939, this was changed to a night schedule providing first morning delivery in Winnipeg and Regina and afternoon delivery in Lethbridge, Calgary, Edmonton, Vancouver, and Victoria of mail picked up the previous evening in Montreal, Ottawa and Toronto; also afternoon delivery in Toronto, Ottawa and Montreal of mail picked up the previous evening in Western Canada. On the same date the service between Lethbridge and Edmonton was increased to two trips each day with a morning and evening departure from each city.

On July 18th a direct Montreal-Ottawa-Toronto schedule was established and the air mail service was extended to cover that route, and on November 1st a second daylight schedule was inaugurated with an extension on a training basis from Montreal to Moncton. At the inception of this latter schedule,

regular air mail was carried between Montreal and Toronto and ordinary first-class mail between Montreal and Moncton. On January 1st, 1940, the carriage of first-class mail was discontinued and regularly surcharged air mail only handled.

The CHAIRMAN: Are there any questions?

Mr. BLACK: Why does the Trans-Canada Air Lines operate these branch lines in the west and not operate them in the east to Charlottetown, Halifax and Saint John?

Mr. COLYER: The air port facilities that are now available at Halifax, Charlottetown and Saint John are not suitable for the use of the equipment that Trans-Canada operates at the present time.

Mr. BLACK: The same type of planes operate on the feeder routes in the west?

Mr. COLYER: Yes, sir, but the air ports of Edmonton and Calgary are suitable for use of these planes.

The CHAIRMAN: Are there any other questions? Let us proceed.

Mr. ENGLISH:

Mail (pounds) carried in the various services during the year 1939 was as follows:—

Month	Trans-continental	Lethbridge Edmonton	Montreal Toronto	Vancouver Seattle	Total
January..	18,082	152	413	3,097	21,744
February..	17,920	318	356	3,107	21,701
March..	29,204	641	579	5,465	35,889
April..	27,933	694	393	5,677	34,697
May..	32,292	623	604	6,872	40,391
June..	30,888	680	566	6,860	38,994
July..	31,329	675	734	7,518	40,256
August..	33,872	744	1,309	8,069	43,994
September..	33,831	712	1,221	6,779	42,543
October..	32,202	980	1,119	6,157	40,458
November	32,920	887	1,713	6,076	41,596
December	39,259	1,284	2,290	7,803	50,636
	359,732	8,390	11,297	73,480	452,899

Mr. BLACK: What do you mean by "surcharge air mail"?

Mr. ENGLISH: Six cents, a surcharge over the ordinary first-class rate.

Mr. LOCKHART: On what is the actual cost of carrying the mail based? How is the actual cost computed? You say here it is carried for six cents. Is that the actual cost? Is there a large deficit in connection with the carrying of the mail at six cents?

Mr. SMART: That is the post office revenue. The post office will have to answer that.

Mr. LOCKHART: You carry mail for six cents. When you work it out—I was looking to see if I had my figures here showing the amount that is carried and the revenue derived. Let us get that. It seems to me that there is a decided loss in carrying it at six cents.

Mr. SMART: That is post office revenue and the post office pays the Trans-Canada Air Lines on a mileage basis. The Air Lines do not get the six cents.

Mr. LOCKHART: I know that but I was working out the cost of maintaining that service and I would like to know if we are going to get the information with regard to the actual cost of maintaining a service to carry that mail.

Mr. COLYER: From estimates that we have seen, the six cents that the post office obtains, does not equal the amount of money they pay for carrying the mail.

Mr. DONNELLY: Did you sometimes carry mail for three cents?

Mr. COLYER: Before the service was regularly established, while we were still carrying on the so-called training flights we carried ordinary mail because the service was not regularly developed and it was felt it was not proper to charge a surcharge rate, with each step, as each part of the system has been developed we carried ordinary mail for a period of time.

Mr. HARRIS: Mr. Chairman, what is the air mail carriage rate now?

Mr. COLYER: Six cents an ounce for the first ounce and five cents for each additional ounce. That is what the Post Office Department charges for an air mail letter.

Mr. HARRIS: What would be the deficit for carrying mail in 1939 at that rate?

Mr. COLYER: I could not answer that question. That is the Post Office Department.

Mr. HARRIS: What I am trying to get at is the relationship between the Post Office Department and the Trans-Canada Air Lines.

Mr. DONNELLY: We should know that.

Mr. SMART: You would have to have the post office people in here to give that.

Mr. DONNELLY: You are not dependent on that mail alone.

Mr. HARRIS: We cannot discuss this thing intelligently unless we have an idea of what the Post Office Department is paying.

The CHAIRMAN: I think they have an idea of what the Post Office Department pays.

Mr. COLYER: They pay us 60 cents a mile for carrying mail.

Mr. BLACK: Irrespective of the volume of mail?

Mr. COLYER: Yes.

Mr. BLACK: The department must have made an estimate of what the revenue would be on the basis of the regular post office charges, say of six cents an ounce or six cents per letter an ounce. I would like to know what amount is paid to Trans-Canada Air Lines by the Postal Department, and its relation to the revenue that would accrue if they received the entire revenue arising out of stamps.

Mr. HUNGERFORD: We do not know about that.

The CHAIRMAN: It would probably be necessary to have an official of the post office either at this meeting or to take it up in the postal estimates in the House.

Mr. ROSS: The revenue is on page 12, line 2.

Mr. LOCKHART: Mr. Chairman, the Trans-Canada received something considerably over one and a half million dollars revenue for carrying the mail. They received \$1,632,000. That is about 70 per cent of the total revenue for the carrying of the mail. Taking the amount of mail carried, that figures out at a percentage much higher than six cents. It figures out to 20 cents an ounce, does it not? I do not think we have to have the post office here to have that calculation.

Mr. COLYER: I understand that ordinary air mail averages about 42 letters to the pound, instead of each letter weighing an ounce; it would be less than that. That is the figure that has been used, and I believe it is considered as being the average—42 air mail letters to the pound.

Mr. LOCKHART: That is all right. But the \$1,632,000 or nearly 70 per cent of the total revenue is derived by the Trans-Canada Air Lines for carrying the mail. Taking the amount of mail they carry, it runs around 20 cents an ounce as I figure it. There seems to be some discrepancy between 20 cents and six cents.

Mr. COLYER: Although I do not have accurate figures, or accurate information, I believe at the present time the amount the Post Office Department receives is less than the amount paid to Trans-Canada Air Lines for carrying the mail, but I do not know what the difference is. I believe they would be the only people who could give you accurate information.

Mr. LOCKHART: Who is making up the deficit?

Mr. HUNGERFORD: We are authorized to carry mail at specified rates and schedules and we get so much a mile for doing it. The mail revenue, of course, goes to the Post Office Department, and we know nothing about that. We are simply paid on the basis of miles flown. We are authorized by the Post Office Department.

Mr. LOCKHART: Then we cannot follow that through, Mr. Chairman.

The CHAIRMAN: Evidently, if there is a deficit in the matter, the Post Office Department shoulders it; and they must be satisfied with the deal they made or they would not go on with it, as far as I can see. I am not supposed to say anything as chairman, however.

Mr. DONNELLY: You could not make any answer out of that, between what you got and this amount that there is carried. Some might be carried to North Bay and a new bag of mail put on there and maybe put off again at Kapuskasing and another off at Winnipeg.

Mr. COLYER: No. These figures are on new mail. There is no duplication.

Mr. DONNELLY: You might have a bag of mail put off at North Bay and another paying six cents put on, carry it to Kapuskasing and put it off there.

Mr. COLYER: Yes.

Mr. DONNELLY: You would be getting 18 or 20 cents a pound on mail, carrying it across the continent.

Mr. ROSS: It seems to me this item could well wait over, because it is evident that the Post Office Department is very intimately connected with the Trans-Canada Air Service and, therefore, we should have a post office official here to fit in with this special item.

The CHAIRMAN: If the committee think it is of sufficient importance, all right. It is in their hands.

Mr. DONNELLY: Do Trans-Canada Air Lines think they have a good bargain with the Post Office Department or do they think they should be getting more for carrying the mail?

Mr. COLYER: Well, during 1939 we should have received more because we had a deficit which was made up by the Department of Transport. We did not get enough payment from the Post Office Department to meet operating expenses.

Mr. LOCKHART: It was estimated there would be a surplus next year.

Mr. COLYER: That is 1940, yes.

Mr. MAYBANK: I think in the post office estimates it is shown as being two and a quarter million spent last year, as though it were paid to the Trans-Canada Air Lines; and this only shows \$1,632,000. We have a department of government saying they have been paid a certain amount of money and an agency of the government saying that they did not get it. What is the explanation for that?

Mr. SMART: Remember, Mr. Maybank, that the Department of Transport at the present time are paying any deficit.

Mr. MAYBANK: Is paying which?

Mr. SMART: Is paying the deficit.

Mr. MAYBANK: That is what I want to get at. I want an explanation of this difference between the two sets of figures.

Mr. SMART: Yes, we pay the deficit. We paid a \$411,000 deficit last year.

Mr. MAYBANK: I see. So \$411,000 added to this will just come to about that. Is that the idea?

Mr. ENGLISH: The answer is that the Post Office Department is paying for air mail carried by a lot of other carriers than Trans-Canada.

Mr. MAYBANK: All right. What is this deficit? If that deficit is added up with this figure in front of us it does not, of course, come to two and a quarter million. It comes to a little over two million. What about the rest of the quarter million

Mr. SMART: You will see on the last page of this thing, Mr. Maybank, the income account. Look at the income account.

Mr. MAYBANK: That is what I have been looking at, and that is what I got those figures from.

Mr. SMART: \$411,000 was paid by the Department of Transport on a vote—what is the number of the vote? It was a vote last year.

Mr. MAYBANK: Yes.

Mr. SMART: One of the votes—vote 590 of the Department of Transport—paid that deficit.

Mr. MAYBANK: Even so, that is a vote of money for the Department of Transport. It has nothing to do with the two and a quarter million I mentioned, which is post office.

Mr. SMART: I do not know what the post office is.

Mr. MAYBANK: I know, but clearly the \$417,000 has got nothing to do with it, I am suggesting. I am trying to get it added up, to get the figures to come together. That is all.

Mr. ENGLISH: The situation is that on airmail service for the Post Office Department last year, Trans-Canada received \$1,600,000.

Mr. MAYBANK: They received what?

Mr. ENGLISH: \$1,632,873.

Mr. MAYBANK: Yes, that is there in the income.

Mr. ENGLISH: And other airmail operators—Canadian Airways, Prairie Airways and so on—who carried mail for the Post Office Department apparently received the difference between that and the two and a quarter million.

Mr. MAYBANK: You suggest that the difference between \$1,632,000 and the two and a quarter million is to be found in the numerous bush mail contracts they have?

Mr. ENGLISH: I think that is it.

Mr. MAYBANK: You think it goes as high as that, do you? I have seen a number of them. I do not know how many there are.

Mr. SMART: There was quite a lot of northern mail.

Mr. MAYBANK: There were quite a number of bush mail contracts, yes.

Mr. BLACK: It would appear to me that there must be a calculation on the part of this Trans-Canada Air Lines of the amount they earn for the Postal Department by providing the service.

The CHAIRMAN: That they earn for or from the Post Office Department?

Mr. BLACK: No, that they earn for them. The Postal Department pays them a subsidy of \$1,632,000; and for that they provide certain mail services to the Postal Department. There must surely be a calculation by those responsible for the management of these airways as to what they earn for the credit of the Postal Department.

Mr. SMART: You would only find that from the Post Office Department, Mr. Black.

Mr. HUNGERFORD: We have a contract with the Post Office Department.

Mr. BLACK: Do we understand that the officers do not have any information?

Mr. SMART: No.

Mr. BLACK: As to what the airways are earning?

Mr. SMART: No, not from the post office point of view.

The CHAIRMAN: As I see it, they do a job for the Post Office Department and they get paid for it.

Mr. SMART: It is exactly the same sort of thing as the railway company do. The railway company are paid so much money for the mail cars and so forth.

Mr. ENGLISH: We do not know how many letters we carry. We know we carry mail in a bag and it weighs so many pounds. We do not know how many letters are in it. It is sealed.

Mr. ROSS: You know the weight.

Mr. ENGLISH: That is all. We are paid by the weight. But what revenue the post office is paid, we do not know.

Mr. DONNELLY: Would the Post Office Department be able to tell us?

Mr. ENGLISH: They would be able to make an estimate, but that would be all.

Mr. DONNELLY: That would be all. They do not count all the letters that come in.

The CHAIRMAN: They know the number of pounds.

Mr. DONNELLY: They could make an estimate.

Mr. ENGLISH: Surely.

Mr. MAYBANK: Does this organization estimate anything in the way of income in this same way for the next year? Have we any estimate of that?

The CHAIRMAN: The budget for next year.

Mr. MAYBANK: The post office is budgeting for an expenditure which I presume will be made up partly of expenditure to bush lines and partly of expenditure to Trans-Canada Air Lines. They are budgeting for four and a half million.

Mr. SMART: No. They figure on—

Mr. ENGLISH: \$3,177,000.

Mr. MAYBANK: That is the estimate.

Mr. ENGLISH: The estimate of our revenue from the Post Office Department.

Mr. MAYBANK: The Post Office Department budget for four and a half million. It looks as though the bush mail fellows account for that difference again, as is the case with the \$1,632,000 and the two and a quarter million.

Mr. ENGLISH: Quite.

Mr. MAYBANK: I see.

The CHAIRMAN: Gentlemen, if we would read through this report and jot down questions to be presented afterwards and thresh the matter out, we would make more headway, I would think. However, that is merely a suggestion from the chair.

Mr. SMART: You could have tomorrow, if you want questions that involve post office revenues. We could have one of the post office officials come here to give you that.

The CHAIRMAN: That is an idea.

Mr. SMART: We have not got that.

The CHAIRMAN: We could have him attend the sitting tomorrow.

Mr. SMART: Yes.

The CHAIRMAN: What is your wish in this matter, gentlemen? If you are very anxious to go very deeply into it, we can do that.

Mr. MAYBANK: I think we would be well advised to have a post office representative here to straighten us out. The time has got to be spent either here or on the estimates for the Post Office Department in the House.

The CHAIRMAN: Is it the wish of the committee that we ask the post office to have an official attend this committee?

Mr. BERCOVITCH: If we have power to do that under the terms of the reference.

The CHAIRMAN: We could ask them, anyway. They would probably send us one.

Mr. BERCOVITCH: Otherwise we would have to go back to the House for power.

Mr. McCULLOCH: Have you not got that now in the charge of sixty cents a mile?

The CHAIRMAN: I do not think the committee will be satisfied with that. I think they will want to thresh the matter out.

Mr. SMART: This will come up in the post office estimates in the House, in committee of the whole.

Mr. MAYBANK: Yes, but the objection to that would be this, that you cannot tie the two together at the time.

Mr. SMART: I do not think the post office would object to coming.

Mr. MAYBANK: Why should they object?

Mr. ROSS: I think we can call them.

Mr. MAYBANK: A witness is a witness whether he comes from the post office or whether he comes from the Department of Fisheries.

The CHAIRMAN: If it is the wish of the committee, we will request the post office to send an official here to-morrow to give this information.

Mr. HARRIS: Carried.

The CHAIRMAN: Is that carried?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: If everybody is satisfied, all right.

Mr. BERCOVITCH: I dissent.

The CHAIRMAN: You dissent?

Mr. BERCOVITCH: Yes. I do not think we have the power to do that.

The CHAIRMAN: Perhaps we have not the power, but perhaps they may be courteous and kind.

Mr. ROSS: We have the inclination.

Mr. BLACK: The term was used "revenues from the bush mail service." I do not understand that term or what mail is carried.

The CHAIRMAN: Order, order. You will have to ask the member who used the term.

Mr. SMART: There are certain services running into the north, down the Mackenzie river and into the north country, all the way across. There are different services operated by private concerns not interested in Trans-Canada Air Lines. The Post Office Department have contracts with those fellows for carrying the mail through. What their revenue is we do not know, of course.

Mr. BLACK: That would apply to Halifax, Charlottetown and Saint John, would it? Would they be styled as bush services?

Mr. SMART: No, they are not. They are not called bush services. Ask Mr. Maybank.

Mr. BLACK: There was considerable resentment down there before this and if they find they are classed among the bush services, there will be more, I think.

The CHAIRMAN: I am inclined to think that the member of the committee who used that term meant the branch lines, purely and simply, north and south of the main line.

Mr. McCULLOCH: Would that be a misprint?

The CHAIRMAN: Which?

Mr. McCULLOCH: Saying bush instead of branch?

Mr. SMART: The reason it was called bush was because up in the north there they all run into that north unsettled country. Mr. Maybank takes the western name of the thing.

The CHAIRMAN: Well, gentlemen, shall we proceed?

Mr. ENGLISH: The next is passenger service.

PASSENGER SERVICE:

Passenger service was inaugurated between Montreal, Toronto and Vancouver and between Lethbridge and Edmonton on April 1. A direct Montreal-Ottawa-Toronto service was established July 18, and a second daily schedule between those points on November 1. The lack of complete radio coverage delayed the inauguration of passenger service to Moncton until February 15, 1940.

Passenger service was operated with a satisfactory degree of regularity, and the company's flight and ground personnel have established a reputation for discipline, efficiency, and courtesy in dealing with the public. The patronage of the service has considerably exceeded expectations, particularly on the trans-continental route. A total of 21,569 revenue passengers was carried, the average passenger journey being 559 miles.

The following table shows the percentage of passenger occupancy (passengers carried in relation to seat capacity) on the various schedules operated during the year:—

	Trans- continental	Lethbridge Edmonton	Montreal Toronto	Montreal Toronto (2nd Sch.)	Montreal Toronto North Bay	Toronto North Bay	Vancouver Seattle	All Schedules
January .. .. .	....	....	....	....	....	....	13.0	13.0
February .. . . .	....	....	....	....	....	....	14.4	14.4
March .. . . .	....	....	....	....	....	....	17.5	17.5
April.. . . .	46.0	24.8	....	....	24.0	....	20.0	44.9
May	56.0	31.5	....	....	30.0	....	25.4	50.4
June	68.5	35.7	....	....	39.5	....	33.0	63.5
July.. . . .	81.0	38.7	49.5	....	44.0	....	39.5	66.7
August	82.5	38.2	55.5	....	50.0	....	48.0	65.2
September	77.5	31.7	56.5	....	50.5	....	30.5	60.1
October.. . . .	67.0	25.5	49.0	....	42.0	....	25.0	51.2
November	63.0	26.7	56.5	50.0	....	50.0	23.7	55.0
December	60.0	28.0	50.0	58.7	....	45.0	22.0	53.0
Year.. . . .	69.0	31.2	53.5	54.5	40.0	48.0	26.0	56.1

The CHAIRMAN: Are there any questions?

Mr. HARRIS: I do not quite understand what you mean by, "any questions."

The CHAIRMAN: Is there any interrogation, or any comment, any desire for further information than that which has been elucidated so far?

Mr. HARRIS: Very considerable I would think on the whole matter. You expressed the wish, sir, that we carry on.

The CHAIRMAN: It has been the practice after going through a paragraph that if any very obvious question has presented itself to the mind of any member of the committee he should register an interrogation at the time, and if it is not entirely threshed out, at all events it can be brought up.

Mr. BLACK: The obvious question here is one of efficiency; whether it pays to carry on a service where the volume is only 26 per cent of capacity while the percentage of capacity on the transcontinental line is 69 per cent. I am not just sure as to why this Vancouver-Seattle service is carried on, whether it is justified. What obligation is there to operate this service?

Mr. COLYER: The answer to your question is I think a rather complicated one. It is anticipated that in future years, and not very many from now, that all the air lines will be in profitable operation; and when you have a connection like the one there, an international connection, a well travelled route, such as we have on the west coast from Vancouver to Seattle, that would be a profitable operation, definitely, just from the passenger business alone. We are carrying a considerable amount of mail at the present time on that particular route for the short distance we operate there. There is, I believe, in excess of 100 pounds a day that we are carrying out of Vancouver, and a corresponding amount probably from the south to the north. And incidentally the passenger business there is growing. While the average seating capacity last year was 26 per cent we are carrying more than 50 per cent more passengers this year in the corresponding months than we did last year. You see, this air service is definitely just beginning, and it is something like any other business, it has to have a period of time to develop. We feel that over a period of time, if it takes a few years to develop, we will have something that is very much worth while.

Mr. JACKMAN: What percentage of occupancy do you require before you reach the breakdown point on an air line?

Mr. COLYER: There is no definite rule of thumb that you can go by. It is determined to a certain extent by the frequency of operation, how much you use your equipment; there are many factors which enter into it.

Mr. JACKMAN: Mr. Howe, in the house one day, stated that on the transcontinental line that point had been reached. He stated that the average for American lines, speaking generally, was considerably below that; and I think he mentioned some figure as being the point where they begin to make money on air lines; there is no figure you have in mind?

Mr. COLYER: Well, it so happened, that in the month of August last year Trans-Canada Air Lines receiving 60 cents per mile from the Post Office Department, plus revenue from passengers, had a net operating profit; and we had a passenger occupancy of around 70 or 80 per cent on the transcontinental schedule.

Mr. JACKMAN: Then it would probably be 50 per cent or 60 per cent?

Mr. COLYER: When you build up your passenger occupancy to 65 per cent over the whole system you are just about loaded to capacity. You have your passenger who is making a short trip, so from Winnipeg to Regina, and he blocks out one who might want to ride from Vancouver to Montreal or from Montreal to Vancouver; so it would not be possible to fill all your seats over the entire route. When you get a 65 per cent seat occupancy on the whole trip you have some place on the road where all the seats are occupied.

Mr. JACKMAN: Then 65 per cent occupancy is about the maximum of efficiency?

Mr. COLYER: That is about as much as you can hope for.

Mr. JACKMAN: So that something less than that must be the break-even point. If 65 per cent is the maximum you can hope to obtain from people

travelling both ways then the point which would make it commercially feasible would be below that point. If that is your maximum you must be in a position to make money long before you reach that maximum?

Mr. COLYER: It depends on the frequency with which you operate your equipment, the number of schedules that you are operating directly affects the operating costs. When you operate on one schedule at a certain cost per mile if you put two schedules on your operating cost per mile goes down materially; when you put a third on it goes down more, and when you get it up to 6 or 7 your cost per mile of operation is, we will say, one-half what it was when you had one schedule on. And so you cannot have any rule of thumb. There are a lot of factors which enter into it.

Mr. DONNELLY: Have you any working agreement with American lines, like from Chicago to Winnipeg, or New York, or any of those American cities?

Mr. COLYER: Yes, we have interline agreements with a lot of American operators.

Mr. BLACK: On the basis on which you are operating or working up this service between Vancouver and Seattle, what other services are being developed to American points say like from Winnipeg to Chicago; or, services for instance from Winnipeg to Minneapolis?

Mr. COLYER: Northwest Airlines operates a service from Fargo to Winnipeg which is a direct connection with Chicago; and the Canadian Colonial Airways, the two companies, operate services between Montreal and New York.

Mr. DONNELLY: Are those Canadian companies?

Mr. COLYER: One of them, the Canadian Colonial Limited, is a Canadian company; while the Canadian Colonial Incorporated is a United States company. They have more or less a joint operation so that the ordinary passenger feels that it is just one air line. Then, the Boston and Maine operates from Boston up to Montreal, and United Airlines operates a service which parallels our own service between Seattle and Vancouver; and as is stated herein, Trans-Canada Air Lines hopes to provide a service between Toronto and New York. We have filed an application with the Civil Aeronautics Authority for permission to operate that service, but there has been no action on it as yet.

Mr. HARRIS: What service is given between Vancouver and Seattle?

Mr. COLYER: What service is given—?

Mr. HARRIS: Yes, what is the service; what service is given, what schedule?

Mr. COLYER: Trans-Canada Air Lines operate three schedules a day, and United Airlines operates two, at the present time.

Mr. HARRIS: Is that part of the reason why the average is only 26 per cent?

Mr. COLYER: Well, the time I am speaking of is the present—last year we operated 2 schedules between Seattle and Vancouver, but at present we are operating 3 schedules and we are in excess of the 26 per cent passenger capacity at the present time.

Mr. HARRIS: What is the line of demarkation between profit and loss, or deficit in operation, what percentage?

Mr. COLYER: I do not believe I could give you that.

Mr. HARRIS: Let me ask this question, Mr. Chairman: 26 per cent of occupancy will not make a paying line, there is definitely a deficit on the Vancouver-Seattle run?

Mr. COLYER: I do not believe there is when you take into consideration the volume of mail handled. So far as Trans-Canada Air Lines is concerned there is not any deficit, because our income for the operation of the service

shows a profit. There was another factor that entered into the third schedule between Seattle and Vancouver, and that was the utilization of equipment to get our plane back into Vancouver so it would be available for main line service instead of tying it up in Seattle. It would have to be tied up there 12 hours in order to operate 2 schedules. When we set out to serve the needs of the Post Office Department by putting the third schedule on we brought the plane back up to Vancouver and had it available for use on the transcontinental service as a reserve, and as a result the depreciation charge on the equipment was not wasted by the layover in Seattle.

The CHAIRMAN: All right, Mr. English.

Mr. ENGLISH:

AIR EXPRESS SERVICE:

Air express service, which was inaugurated between Montreal, Toronto and Vancouver on October 17th, 1938, was extended during the year 1939 to cover the Montreal-Ottawa-Toronto schedules when these were established, and to Moncton when the training schedule was inaugurated to that city on November 1st.

The amount of business handled has not been large, but it has shown a steady and consistent growth, and there is every indication that the service afforded is becoming recognized and appreciated by shippers for its convenience and dispatch.

The following table shows the volume of traffic during the year:—

	Number of Shipments	Weight (Pounds)
January..	289	1,339
February..	294	1,077
March..	487	2,076
April..	809	3,197
May..	1,103	5,212
June..	1,026	4,378
July..	913	3,468
August..	1,028	4,550
September..	1,066	7,113
October..	1,447	3,923
November..	1,249	3,802
December..	1,486	5,684
Total..	10,897	45,819

Mr. BLACK: There is a special statement showing revenue accruing from that service?

Mr. ENGLISH: It is \$23,613.

Mr. BLACK: That service is possible at the present time?

Mr. COLYER: It represents a source of income to Trans-Canada Air Lines. It is an advantage to us to carry it. We have the space on the planes, and it is another service that is going to require development. This 5,000 pounds which was carried in December is nothing as compared to what should be carried in an air express service. It does not cost anything to carry it. The plane is operating. The crew are there. It is just a case of putting the express on the plane.

Mr. BLACK: How would the rates compare with train express?

Mr. COLYER: They are considerably higher. In most cases the air express rate is slightly lower than the postal rate, in other cases it is higher. Express rates are zoned, the Post Office Department rate of 6 cents an ounce covers the whole country.

Mr. DONNELLY: Has air express increased much since January 1st of this year?

Mr. COLYER: It has been growing, yes; the same as the mail service, passenger and express are showing steady growth.

Mr. ROSS: How do our air express rates compare with those of the United States?

Mr. COLYER: I think they are almost identical; you see, the Trans-Canada Act says that the Trans-Canada Air Lines charges for passengers and goods handled shall be competitive with the charges of comparable air lines in the United States. That more or less fixes our charges for passengers as well as express.

Mr. DONNELLY: Do you anticipate, Mr. Hungerford, that this express will interfere with your earnings by train express?

Mr. HUNGERFORD: I suppose to a degree it is a competitive service. That is true with respect to passengers too.

Mr. DONNELLY: And telegraph service also?

Mr. HUNGERFORD: And it affects telegraph services also; as to what extent it develops new business no one can say. It is not possible in so far as we can see to segregate that so as to determine it.

The CHAIRMAN: All right, we will proceed with Property and Equipment.

Mr. ENGLISH:

PROPERTY AND EQUIPMENT

FLIGHT EQUIPMENT:

As at December 31st, the flight equipment of the company consisted of:—

- 15 Lockheed 14H aircraft, each equipped with two Pratt & Whitney S1E2G or S1E3G Hornet engines of 850 horsepower, hydromatic full-feathering propellers, and Bendix radio.

Six of the above aircraft were acquired during the year. Five replaced in service an equal number of Lockheed 10A aircraft which, due to their limited accommodation and slower speed, were not satisfactory from a passenger point of view. The five Lockheed 10A aircraft were subsequently sold at their depreciated book value, one to the Inspection Division, Department of Civil Aviation, and four to the Department of National Defence for use of the Royal Canadian Air Force.

A program of modifications and improvements to flight equipment was undertaken by the company's forces at the Winnipeg repair base with the co-operation and assistance of the aircraft and engine manufacturers. The major projects completed were:—

Fitting of wing slots.

Substitution of improved type of propeller de-icing equipment.

Revision of heating system.

Installation of oxygen equipment for passengers and crew.

It is the endeavour of the company's technical staff to keep abreast of progress in the industry and there is a regular exchange of information and data with other operators and with the manufacturers. During the year considerable experience was gained in connection with icing problems, and the company co-operated with the manufacturer and with the National Research Council at Ottawa in tests and experiments with a view to improving present practices. Interesting developments are under way in respect of direction finding equipment and blind landing equipment, and are being carefully followed.

Mr. BLACK: There are 14 aircraft in service?

Mr. COLYER: Fifteen.

Mr. BLACK: Fifteen—6 of the aircraft were acquired during the year—5 replaced.

Mr. COLYER: There is a total of 15 aircraft; 5 of them replaced the Electras, and we had nine 14s at the beginning of last year.

Mr. DONNELLY: Have you that amount now?

Mr. COLYER: No, sir; 15 is all we have.

Mr. ROSS: Could we have a short explanation of this, "improved type of propeller de-icing equipment"?

Mr. COLYER: The original de-icing equipment for propellers consisted of a supply of alcohol and glycerine carried in the engine compartment and applied mechanically to the propeller blade in such a way that it spread over the blade, but it did not keep the ice off the propeller satisfactorily. On these new engines the propeller being geared down 3 to 2 it did not work satisfactorily so we have worked out rubber overshoes to go on the leading edge of the propeller. The overshoe has grooves of different lengths, and the liquid comes out through a pipe and passes down the grooves and passes out on to the blade at different points and it is carried down to the edge of the blade. It is much more satisfactory, but it is not 100 per cent effective even yet.

Mr. ROSS: It is an improvement?

Mr. COLYER: Yes.

Mr. BLACK: I presume there is a statement here of the cost of that equipment; that is, we have 15 of these machines in service, what is the average cost?

Mr. ENGLISH: The 15 aircraft, complete with radio equipment, cost \$2,202,000. That I might say includes spare engines. We have 10 spare engines included in that cost of \$2,202,000; a complete airplane costs between \$130,000 and \$135,000.

Mr. BLACK: Is there a spare engine for each machine?

Mr. ENGLISH: No, there are 10 spare engines for 15 machines.

Mr. BLACK: What is their average cost?

Mr. ENGLISH: The average cost—for the whole aircraft equipment is \$2,202,000, that is the total cost; the average per machine would be \$130,000 to \$135,000. Of course, the cost varies from time to time. If you bought a machine a year ago and you bought one six months later you would find that your cost had gone up.

Mr. BLACK: I suppose the more modern machine would be a better machine.

Mr. ENGLISH: There are always improvements.

GROUND EQUIPMENT:

The hangar at Malton Airport (Toronto), construction of which was commenced in the fall of 1938, was completed in February, 1939. A hangar of similar design was erected during the year at St. Hubert Airport (Montreal), and work was commenced in the late fall on a hangar at Moncton which it is expected will be completed early in 1940. An extension to the hangar and shop at Winnipeg was also completed during the year.

Adequate facilities were made available early in the year at the Winnipeg repair base for the maintenance and overhaul of aircraft, engines, propellers, instruments and radio equipment.

Improved passenger facilities were provided at all airports. Radio, servicing, and other equipment was installed at Calgary and Moncton.

Mr. JACKMAN: In your balance sheet you have "Less accrued depreciation \$634,241.68." I do not notice anything in the income account for depreciation. How do you build up your depreciation reserves among your assets there?

Mr. ENGLISH: They are divided under the different general accounts. They do not show up as one item; so much of the depreciation is on aircraft and so much on ground equipment.

Mr. JACKMAN: Do we get it some other place?

Mr. ENGLISH: I can give you the figures for the aircraft.

Mr. JACKMAN: I am a little more interested in percentages.

Mr. COLYER: You are interested in the period of time during which we depreciate our equipment. The aircraft are depreciated in four years—twenty-five per cent a year; the engines in four thousand hours.

Mr. JACKMAN: But you depreciate the aircraft apart from the engines in four years?

Mr. COLYER: The aircraft is four years and the engines in four thousand hours of flying.

Mr. JACKMAN: You apparently consider that more than adequate? You think that at the end of four years your fuselage, apart from the engine, is in fair condition?

Mr. COLYER: At the end of four years your aircraft, I think, will be obsolete for the transcontinental service, but it will still be a good flying aeroplane.

Mr. JACKMAN: How is it there is not some item in the income account among operating expenses for depreciation?

Mr. COLYER: It is an expense—

Mr. JACKMAN: Why is it not shown in the balance sheet itself or the depreciation account—this \$634,000?

Mr. COOPER: The depreciation expense charged to operation is included in the item shown on page 12—"Aircraft operation and maintenance." The next item is "Ground operation and maintenance,"—and that includes depreciation charges on the ground equipment.

Mr. JACKMAN: It might better read "Aircraft operation, depreciation and maintenance"? You merely leave out the word "depreciation"?

Mr. COOPER: Yes. There is some point in what you say. It definitely includes depreciation.

Mr. JACKMAN: At no place is there a complete schedule of the various depreciation percentages set out?

Mr. COOPER: But we do show on page 9 of the report what the total depreciation charged to operation is. The second paragraph on page 9 states:

"Adequate depreciation reserves have been provided in respect of all property subject to depreciation. Depreciation charged to operating expenses in 1939 totalled \$557,342 and comprised over 20 per cent of the total operating costs."

And Mr. Colyer has indicated the basis of arriving at that depreciation charge—four years for planes and four thousand hours for engines.

Mr. JACKMAN: You feel quite satisfied, from an operating point of view, that that depreciation is adequate?

Mr. COLYER: Yes.

Mr. HARRIS: Mr. Chairman, I think that schedule ought to be filed; it is not a long schedule and there would not be very much involved.

Mr. COOPER: There would be no objection to filing the statement.

Mr. HARRIS: If the air equipment is being depreciated at 25 per cent a year, we would like to know that, and if the fixed property is being depreciated at two or five per cent, we would like to know that. The word "adequate" is not sufficient for this committee, as I see it, Mr. Chairman.

Mr. COOPER: We will file the statement.

Mr. JACKMAN: I might suggest that in addition to depreciation you need obsolescence as well as maintenance.

Mr. COOPER: When we speak of depreciation we include obsolescence. That is probably a larger factor than depreciation itself.

Mr. COLYER: It might be of interest for you to know that our depreciation rate, or the rates that we use, are substantially the same as those used by transcontinental operators in the United States; quite similar.

Mr. HARRIS: I did not hear that.

Mr. COLYER: Our rates are the same as the rates of the transcontinental operators in the United States.

Mr. HARRIS: How do they compare with the privately owned companies?

Mr. COLYER: Where?

Mr. HARRIS: How do the rates compare?

Mr. COLYER: Privately owned companies where, in the United States? I am speaking of privately owned companies.

Mr. HARRIS: We have not any in Canada of any consequence. Of necessity you have to compare them with the United States.

Mr. COLYER: The ones I was speaking of in the United States are all privately owned companies.

Mr. HARRIS: Your rates are on a basis similar to theirs?

Mr. COLYER: Yes, sir.

Mr. JACKMAN: Do you not think it would be better if in the income account you set up a separate item for depreciation and obsolescence apart from maintenance, as the ordinary corporation does? I am sure the air lines in the United States must set that up separately. It gives a better understanding.

Mr. COOPER: It could be done but we have shown it in the body of the report, and, from what I recall of the United States companies, our income statement is similar—

Mr. HARRIS: Where in the body of the report?

Mr. COOPER: Page 9.

Mr. HARRIS: That has only the word "adequate".

Mr. BLACK: Mr. Chairman, I would say the proof of this is whether an adequate depreciation was set up and whether actual money was taken out of operations and set aside in a special fund, as a sinking fund, or a special fund for depreciation. Is that done?

Mr. COOPER: No, and we do not agree that that is good policy. The money which we provide out of operation for depreciation is reinvested as capital and avoids the raising of new capital. Trans-Canada has to pay 5 per cent on its capital, and we could not set money aside and invest it to produce 5 per cent.

Mr. JACKMAN: I would agree with you on that.

The CHAIRMAN: Airway facilities.

Mr. ENGLISH (reads):

AIRWAY FACILITIES

Landing fields and other facilities at the airports owned by municipalities or by the Department of Transport, and used by the company, were improved considerably during the year. Additional runways were constructed where required, existing runways extended, and field lighting bettered. Improvements were also made at intermediate and emergency fields maintained and operated by the Department of Transport.

Radio range facilities furnished by the Department of Transport are now in operation at all stations along the company's route from Moncton to Vancouver and at the intermediate or 100-mile landing fields. The operation of the radio ranges showed consistent improvement throughout the year and the system is now functioning with a high degree of efficiency. An improved type of range equipment was substituted in Carmi and Crescent Valley ranges in the mountain section, and a high frequency range marker installed at Maple Ridge, B.C., the approximate point at which the westbound flight commences its descent after crossing the mountains. These proved of material assistance to the company's operations. New ranges were installed at Megantic, Que., Blissville, N.B., and Moncton, N.B., on the Montreal-Moncton run; and at Sterling, Ont. (about 20 miles north of Trenton), on the direct route between Ottawa and Toronto. The first three were in operation in the late fall and the Sterling range at the end of the year. The use of the latter range reduces the mileage and flying time between Ottawa and Toronto by 48 miles and 15 minutes respectively. Ranges are under construction at London, Ont., and Windsor, Ont., to cover the prospective Toronto-Windsor service. A radio range installed by the United States authorities at Millinocket, Maine, was completed at the end of January, 1940, as a result of which there is now full radio coverage on the route between Montreal and Moncton.

The weather reporting service operated by the Meteorological Branch, Department of Transport, was extended and its staff augmented to meet the needs of the expanding service and the increased use of the airway.

Under arrangements between the Department of Transport and the municipal authorities administration buildings were constructed at the Malton and Regina airports.

Mr. BLACK: What is the total investment in radio range facilities? I do not know what your unit is, but what is the approximate unit cost between different points?

Mr. EDWARDS: The average cost is about \$50,000, and there are approximately forty across the country between Halifax and Vancouver. They run from Halifax to Victoria. The last one is in Victoria.

Mr. BLACK: Then there is about \$2,000,000 invested?

Mr. EDWARDS: Roughly \$2,000,000.

Mr. JACKMAN: I do not know whether this question is appropriate here or not, but the Signal Corps, as part of the permanent army, maintains various weather reporting bureaux. I do not know whether you call them meteorological bureaux, or not. I was wondering whether there was any co-operation between the two.

Mr. EDWARDS: The services provided by the Signal service—those few stations on the Mackenzie River—are subsidized by the Department of Transport.

Mr. JACKMAN: So there is every co-operation possible

Mr. EDWARDS: Everything.

Mr. LOCKHART: On the moneys advanced to municipal airports for improvements—I gather there was something over one million and a half—what rate of interest is charged on that investment?

Mr. EDWARDS: No interest at all.

Mr. LOCKHART: That is where we are getting some of the possible surplus.

Mr. EDWARDS: No, that has nothing to do with Trans-Canada Airways

Mr. LOCKHART: It is a gift.

Mr. EDWARDS: It is a subsidy too.

Mr. ROSS: You state in the report, "Ranges are under construction at London, Ont., and Windsor, Ont., to cover the prospective Toronto-Windsor

service." The airport I am particularly interested in is the London airport, situated in my riding. I should like to know a little about the type of equipment that will be used from Windsor to Toronto and the schedule of flights. It was stated in the report that operations would commence on the first of July, but I was told a few moments ago that they would not commence until the first of August. I should like to have a little information in connection with the type of equipment and the schedule of proposed flights between Windsor and Toronto.

Mr. COLYER: The present equipment, Lockheed 14s will be used on that service. While the schedules have not been definitely set as yet, it is expected that there will be two round trips of service per day between Toronto and Windsor, connecting, we hope, with service to Chicago, and connecting at Toronto with service to Ottawa, Montreal and possibly the Maritimes.

Mr. LOCKHART: Following up the point I mentioned a few minutes ago, the Department of Transport has a very large investment in the Airways Facilities; I think it is something nearly \$5,000,000 altogether.

Mr. EDWARDS: It is more than that.

Mr. LOCKHART: Is that money just gone with the wind?

Mr. EDWARDS: Oh, no. You could not have an air service in Canada—

Mr. LOCKHART: But nobody pays anything for it.

Mr. EDWARDS: The revenue is not very high, but everybody that uses an airport pays for the privilege of landing on it. If you were to fly from Halifax to Vancouver you would have to have a field about every one hundred miles.

Mr. LOCKHART: Is there any schedule showing where that deficit lies?

Mr. EDWARDS: In the operating expenses?

Mr. LOCKHART: Yes.

Mr. EDWARDS: When the Department of Transport estimates come up you will get that information.

Mr. ENGLISH:

Personnel

Personnel at December 31, 1939, totalled 497, being an increase during the year of 165 and comprised of:—

Administrative officers, technical advisers and operations officers..	12
Captains and first officers..	54
Stewardesses..	28
Maintenance and overhaul..	233
Communications and dispatch..	81
Station, clerical and other..	89
	<hr/>
	497

The organization was developed systematically throughout the year to keep pace with expanding operations. There was no modification of the high physical and educational standards required of prospective employees, and so far no serious difficulty has been experienced in securing the desired type of personnel.

The pilot training program was carried on as expeditiously as the provision of flying equipment permitted. In all, some 2,096 hours were flown in training during the year, and 21 candidates successfully completed the training course and were assigned to duty. In order to provide for contemplated service extensions and for a small reserve of trained personnel, a number of pilots are now in training, and daylight cross-country trips are being operated in the prairie section for the advanced training and familiarization of potential captains.

On September 1, Mr. P. G. Johnson requested that he be allowed to relinquish his appointment as Vice-President in charge of Operations. The Directors, appreciating the personal reasons which prompted the request, regretfully acceded to his wishes. Mr. Johnson agreed, however, to devote a certain amount of his time to the affairs of the company, and accepted the appointment of Consultant. Mr. D. B. Colyer, formerly Chief Technical Adviser, was appointed Vice-President in charge of Operations.

Mr. LOCKHART: Does the Auditor-General's report give the details of the salaries in connection with the personnel of this department, or is it a closed corporation the same as the railways?

Mr. EDWARDS: Just the same as the railways, yes.

Mr. LOCKHART: There is no way of getting any information at all, then.

The CHAIRMAN: Yes. What is the question?

Mr. LOCKHART: I say there is no way of getting any information on comparisons with the cost of other airlines in the States, for instance.

The CHAIRMAN: If you ask for any information and it cannot be given, it will be obtained. Do I understand that you want to compare costs?

Mr. LOCKHART: The desire was to compare the administrative costs of the officers and technical men on this line. I say could the information be obtained to make that comparison?

Mr. HUNGERFORD: I do not see how we could get that information.

Mr. LOCKHART: I am not asking you. Is the information available so far as Trans-Canada airlines is concerned?

Mr. HUNGERFORD: Just what information, please?

Mr. LOCKHART: The salaries of all the different officers and technical men who operate the Trans-Canada airways.

The CHAIRMAN: As compared with other airways.

Mr. HUNGERFORD: What other airways?

Mr. LOCKHART: I am not asking for anybody else to make a comparison, but are the salaries for the Trans-Canada airways of their technical men, administrative staff, and what is paid to the stewardesses and everybody else, available so far as the Trans-Canada airways is concerned?

The CHAIRMAN: Yes.

Mr. HUNGERFORD: Yes.

Mr. LOCKHART: That is available. If not, where would we get it?

Mr. HUNGERFORD: It is available in the records of the company, but it has not been the practice to disclose officials' salaries. It has not been the practice in the past.

Mr. GRAY: Why?

Mr. HUNGERFORD: Because we are about as nearly as possible a private company, and that information would be given out to the public.

Mr. GRAY: Sir Henry Thornton's salary and everything connected with him was threshed out. Surely that is available if this committee wants it.

Mr. HUNGERFORD: Quite; this committee can order anything.

Mr. ROSS: In connection with personnel, there are a number of bright spots in the report but I think one of the brightest ones is on page 4, the last paragraph.

The CHAIRMAN: Would you mind waiting until we get to that?

Mr. ROSS: Operating conditions were on the whole quite satisfactory. There were no accidents involving injury to passengers or personnel. Now, I.

think, Mr. Chairman, that the president, Mr. Hungerford, and the vice-president in charge of operations, Mr. Colyer, are certainly entitled to the deep appreciation and congratulations of this committee on this 100 per cent successful report.

Mr. HARRIS: That together with providence and fine weather.

The CHAIRMAN: Mr. Lockhart, do I understand that you want to obtain certain information?

Mr. LOCKHART: I am asking you to proceed to get the information.

The CHAIRMAN: If it is the wish of the committee that the information be procured, I suppose you should state definitely what information you want to be given.

Mr. LOCKHART: I would like to have the information myself. I do not know whether the committee feels the same as I do about it.

The CHAIRMAN: Well, will you give us an outline of what information you want?

Mr. HARRIS: It is a dangerous thing to establish a precedent. This room could be cleared in a few moments and we could have all the information we want. That principle was established when we first established this committee. I had the privilege of serving on the committee in the year 1923 or 1924 and we established that principle at that time, that the salaries of executive officers and all salaries of personnel were available to the members of this committee. In doing that we all took our own responsibility. You can go back to the record and find that is a fact.

The CHAIRMAN: Is this in the form of a motion, because if it is it will be voted on, and we will act forthwith?

Mr. LOCKHART: I will so move.

The CHAIRMAN: If this is a motion let us have a seconder and have a vote and then we will know where we are at.

Mr. LOCKHART: I will move that the administrative salaries and everything be provided for this committee, and that if it is necessary, to clear the room.

Mr. HARRIS: I second the motion.

Mr. DONNELLY: Do you want this information printed?

Mr. LOCKHART: I want it made available to the members of the committee.

Mr. DONNELLY: It is given to us in this committee.

Mr. LOCKHART: I want it to be available to the members of this committee.

Mr. DONNELLY: I mean to say that we can come in here in private and we can hold a meeting without any reporters, and the witness can tell us what is wanted, but if you want it printed in the record that is a different thing.

Mr. LOCKHART: That is immaterial to me.

Mr. DONNELLY: That is what I want to know. Do you want it printed in the report or in private—what the salaries are?

The CHAIRMAN: Do you want a written report or a verbal report?

Mr. GRAY: I think Mr. Lockhart would be satisfied with a verbal report.

Mr. LOCKHART: Yes, I will be.

The CHAIRMAN: Gentlemen, you have heard the motion; all in favour?
(Carried.)

(The committee went into camera at 9.30.)

The committee resumed in public at 9.40.

Mr. LOCKHART: It is suggested that we will have surpluses in 1940 if certain things are done and I think we are entitled to know, Mr. Chairman, the amount of load that the Canadian National Railways are carrying to develop the service.

The CHAIRMAN: That has been decided. We are getting the information now. Will you proceed, Mr. Cooper?

Mr. COOPER: Medical department \$5,000; publicity \$6,000; stores and purchasing department \$6,000; and the operating department \$4,320. (In session in camera Mr. Cooper had given the following figures in addition: accounting department \$4,800, treasury department \$600; insurance department \$300; legal department \$6,000.)

Mr. LOCKHART: What was the last?

Mr. COOPER: Operating department.

Mr. BLACK: That is for yearly periods.

Mr. COOPER: Yes. The total amount is \$33,020 per year, and I would like to make it clear that these are not official salaries.

The CHAIRMAN: They are not?

Mr. COOPER: No. It is the estimated costs to the Canadian National Railways of doing work for the Trans-Canada Airlines.

Mr. JACKMAN: Is this estimated cost of \$33,020 not in the operating expenses some place?

Mr. COOPER: Yes, it is

Mr. JACKMAN: In other words, the railways are not contributing any of this service on which you fix an arbitrary figure for months or for years, and not paid by them?

Mr. COOPER: Not at all.

Mr. JACKMAN: It will be your opinion that the Trans-Canada Air Lines are carrying themselves?

Mr. COOPER: Exactly. This charge is intended to fairly compensate the Canadian National Railways for the work which it does on behalf of the Trans-Canada.

Mr. JACKMAN: In other words, there are no charges that you can think of which are borne by the railway company of services rendered to the Trans-Canada of which a proper charge is not borne by Trans-Canada.

Mr. COOPER: Apart from the general supervision of, say, the president—we do not make a charge for the president to the extent that Mr. Hungerford has general supervision over the affairs of the Trans-Canada—there is not any charge made, but wherever there is any direct expense incurred by the Canadian National Railways it is charged up.

Mr. GRAY: Will you make this clear again: there is not any duplication of salaries or expenses by the Canadian National Railway?

Mr. HUNGERFORD: No Canadian National official gets anything extra for the work of Trans-Canada, or any other subsidiary as far as that is concerned.

Mr. JACKMAN: It is all overhead and you assess it against each department, and it all goes out in operating expenses?

Mr. COOPER: Yes.

Mr. BERCOVITCH: You would not call it compensation. The Canadian National Railway is being indemnified for services rendered to the Trans-Canada.

Mr. HUNGERFORD: That is exactly it.

Mr. HARRIS: And the secretary and the treasurer and the comptroller and the counsel do not get anything at all. And is there no charge other than those enumerated by the gentleman who has just sat down for the services of the men—Mr. Hobbs, the secretary, and the treasurer—no charge against the operation of Trans-Canada Air Lines for the services of these men?

Mr. COLYER: No, sir.

Mr. ENGLISH: The Trans-Canada does pay full freight charges at tariff rates for any rail movement, and full express charges, and full telegraph charges. There is no—

Mr. HARRIS: I am speaking about the officers who are listed on the front page. The only officer in this group who is drawing any remuneration is the vice-president in charge of operations; is that right?

The CHAIRMAN: And his assistant.

Mr. HARRIS: Mr. Chairman, I would like to say this: the directors elected by the shareholders, they receive no remuneration; those appointed by the Governor in Council in a like manner receive no remuneration; the officers, except the two cited, and the consultant, receive no remuneration. With regard to the expenses of the directors—do they get any directors' fees?

Mr. HUNGERFORD: No.

Mr. HARRIS: Do they get any expenses from the Trans-Canada?

Mr. HUNGERFORD: I do not know whether they get any expenses or not.

Mr. COOPER: I do not believe there have been any expenses on Trans-Canada.

Mr. GRAY: Do they get any from the Canadian National Railways?

Mr. COOPER: They do for our business, yes.

Mr. GRAY: It is just a matter of which account you pass, is it not?

Mr. COOPER: I do not know that any of them have done travelling for Trans-Canada, but they certainly have not charged the expenses to us.

Mr. LOCKHART: How is the office work of the Trans-Canada Air Lines operated? How is the mail sent out? Is it under the Canadian National Railways?

Mr. COLYER: We put stamps on our mail that goes to outside points, and our own inter-company mail we carry on the plane without stamps.

Mr. LOCKHART: The outside mail is all stamped just as the public do?

Mr. COLYER: Yes.

Mr. LOCKHART: Nothing is done by the Canadian National Railways?

Mr. COLYER: I am speaking for Trans-Canada. There is no franking done by Trans-Canada. We have no franking privilege.

Mr. GRAY: Do Touche & Company audit Trans-Canada? Is it a running audit?

Mr. COLYER: Yes.

Mr. GRAY: By Touche & Company?

Mr. COLYER: Yes.

Mr. JACKMAN: The board of directors of Trans-Canada are not the same in all cases as the board of the railways. Do these men serve just for the honour that is in it? Take those appointed by the Governor in Council, Messrs. Edwards, Wilson and Herring. Do they receive anything for it?

Mr. HUNGERFORD: No, sir. Just as a matter of information three of the directors are appointed by the government; the other directors are at the same time directors of the Canadian National Railways. I would like to say by

way of explanation when we were setting up this organization it became evident we were going to require the services of a purchasing department, a stores department, a legal department and so on; and it was concluded that we could co-ordinate these activities in the different departments of the railway and do the work very much cheaper than we could by setting up separate organizations of that kind in connection with Trans-Canada. That was why this arrangement was made.

Mr. McCULLOCH: And probably save two-thirds of the cost.

Mr. HUNGERFORD: I should think easily that.

The CHAIRMAN: Are you through with this part of it, gentlemen. If so we will go ahead until 11 o'clock.

Mr. HARRIS: You have only come to directors. What other administrative officers, technical officers are there in these twelve, Mr. Chairman, twelve administrative officers, technical officers and operation officers? Could we have the list of the twelve and their remuneration?

Mr. COLYER: I can give you the salaries, the names of the individuals in the organization and their salaries. The general superintendent at Winnipeg is Mr. Larsen.

The CHAIRMAN: We have decided not to report the salaries.

(At this stage of the proceedings Mr. Colyer gave the names of the officials and their salaries.)

Mr. LOCKHART: You must have been comparing notes with some of the American companies.

Mr. COLYER: Our pay scale is similar but I think it is probably less.

Mr. LOCKHART: Your general set-up is very similar.

Mr. COLYER: The statements I have given I believe cover in general all the classes of employees. We have janitors and so on.

Mr. BLACK: What constitutes the crew of an airplane?

Mr. COLYER: The crew of a plane consists of the captain, the first officer and the stewardess.

Mr. BLACK: How many crews are there for the fifteen machines?

Mr. COLYER: We have at the present time 37 captains, 43 first officers and unless one of our stewardesses has got married in the last few days, 44 of these.

Mr. JACKMAN: Is there any unionization among the personnel of the Trans-Canada?

Mr. COLYER: At the present time there is a pilot organization, they call themselves, Trans-Canada Air Lines Pilot Association, I believe. They are more of a guild than a union. I do not believe they are affiliated with any labour union, not to my knowledge.

Mr. BLACK: Not tied up with any American union?

Mr. COLYER: I do not believe they are. I could not be absolutely certain of that because it is not my business.

Mr. BLACK: You have had no trouble in that regard, no pressure to raise rates?

Mr. COLYER: No.

The CHAIRMAN: Gentlemen, I should like to have an understanding as to whether it is your wish that the salaries and the information that has been given recently shall not go in the record.

Mr. HARRIS: Only that portion that gives us the relationship between the amount of money borne or paid by the Trans-Canada lines or the Canadian National railway line on behalf of Trans-Canada.

The CHAIRMAN: Only that portion will go into the record.

Mr. HARRIS: Will go into the record.

The CHAIRMAN: The rest will be withheld.

Mr. GRAY: Have we finished with the witness?

The CHAIRMAN: I think we are about finished for to-night.

Mr. GRAY: I should like to add one thought before we adjourn. We might finish with Trans-Canada to-night.

Mr. HARRIS: We have not gone over it yet. We were to go through the whole report and then go over it item by item and ask more questions.

The CHAIRMAN: Yes, that is fine. I think we had gotten as far as "Air-way Facilities."

Mr. HARRIS: On a point of order; we are more or less a secret session now, are we not?

The CHAIRMAN: We were until a minute ago.

Mr. HARRIS: Nobody has come in since. I want to make an observation before we get out of this session. You have your vice-president in charge of operations. You have his assistant, and then you have expenses. They are costing real money. Then you have a consultant. The relationship between the cost of that overhead and the amount of business we are doing, the amount of revenue we receive when we consider \$1,600,000 are handed to the Post Office Department is out of all proportion—I am glad the minister has come in as I should like to repeat that statement in the minister's presence. Mr. Chairman, you have Mr. Colyer at a salary which was stated here to-night and his assistant.

The CHAIRMAN: Yes.

Mr. HARRIS: Then you have retained a consultant. Then you look at your income account. The mail operation is a simple matter for any executive to collect. It is only \$1,632,873, because it is all re-arranged for them. It does not take much of a business executive to get that into the treasury. Then take the total revenue of the concern. They have, as I view it, \$2,300,000 less \$1,632,000. They really have to give diligent attention to the matter of \$750,000 a year revenue. They have to give diligent attention to operating a very highly technical and difficult airline system. But with everything that is involved in establishing these facilities, Mr. Chairman, I think you are out of proportion; and I cannot see why we should have to pay a consultant who is probably a resident of another country. I do not know whether he is or not; at least his major interest is not centered in Trans-Canada Air Lines, that is true. I think consideration ought to be given to keeping that personnel in some sort of fair relationship to the amount of business that they are doing, and that condition does not obtain when you use this balance sheet as it is put before us to-night.

Hon. Mr. HOWE: Mr. Chairman, since the remarks are addressed to me I should like to make an explanation. I can say this, that whether the salaries are too large or not I can say that by following the procedure we have we have been able to start an air line in perhaps the shortest time that an air line has ever been started here or in any other country. We have been able to operate it continuously since its commencement without a serious accident of any kind, without the loss of a passenger. I think there is no air line that has ever operated anywhere that has the same operating record. We maintain an efficiency of operation that is the best on the continent. I think our record is something like 98·2 per cent of schedule flights completed and the average to the south of us is about 95 per cent. The reason, I think, we have been able to do that in this country—we are not miracle men here—is that we have gone into the matter and obtained the services of the best men that were on the

continent to do that job. We have paid them what is the current rate for that type of service, and no more. We have not paid them extravagant salaries. I think the men we have there would have no difficulty whatever in selling their services at the rate that we are paying. In fact our difficulty is, I may say, in the presence of one of them, to keep them here on the job. I think we could have their resignations to-morrow with the best of good will if they had any doubt that they were not doing a job here.

As far as the financial position of the company goes I think the main thing is to keep those planes operating efficiently; and there is a tremendous amount of technical information required for that purpose. Mr. Colyer has been urging me for the last year to appoint a successor who could be trained. Frankly I have not been able to recommend to him any man that I believed could in a short time be trained as his successor. I have asked him to try and develop him from the air line itself; and I know that he is endeavouring to do that. Personally I am very sincerely hoping that we can retain the services of Mr. Colyer at the salary that we have mentioned or, if it takes a little more to keep him, I hope we can retain his services until he can have trained from the personnel of the air line a successor that can operate that air line as well as he can. Operating an air transport system is not like some other business where second best may be good enough. Second best on an air line may result in dropping a plane load of passengers in one year or something of that sort. If we can avoid that, as we have up to this time, I, at least, am not one to question the salaries that make it possible to do so.

Mr. HARRIS: Before the minister came in, perhaps it would be of interest to note that the congratulations are already embalmed on the record along with our thanks to God at the same time. So that had he been here he would not have needed to make that observation.

Mr. GRAY: Can we adjourn, Mr. Chairman?

The CHAIRMAN: Do you want to finish this affair?

Mr. GRAY: I move we adjourn. You have had three sittings to-day. Surely that is enough. You cannot finish to-night.

The CHAIRMAN: Before we go, let us understand when we shall meet again. Shall we meet to-morrow at eleven?

Mr. GREY: Tuesday.

The CHAIRMAN: Well, I do not think Tuesday meets with general favour. However, it is up to the committee. I should like to see the committee get on with its work as soon as we can and get finished with it.

Mr. GRAY: I have known this committee to sit for weeks.

The CHAIRMAN: Yes, but there is quite a difference.

Mr. GRAY: We have made wonderful progress to-day. Surely we are at least entitled to have time to read the report. I move that we meet next Tuesday at eleven.

Mr. BLACK: I second it.

The CHAIRMAN: You second the motion?

Mr. BLACK: Yes.

Mr. GRAY: Question.

The CHAIRMAN: All right, gentlemen. There is a motion that the committee adjourn until Tuesday at eleven o'clock. All in favour of the motion? Against? I declare the motion is carried.

The committee adjourned at 10.10 p.m., to meet again on Tuesday, July 9, at 11 a.m.

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Canada Railways and Shipping
1940

SESSION 1940

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

TUESDAY, JULY 9, 1940

WITNESSES:

- Mr. S. J. Hungerford, President, Canadian National Railways.
Mr. T. H. Cooper, Comptroller, Canadian National Railways.
Mr. W. M. Armstrong, Assistant Chief of Research and Development, Canadian National Railways.
Mr. O. A. Matthews, Auditor, George Touche & Co.
Mr. D. B. Colyer, Vice-President, Trans-Canada Air Lines.
Mr. W. F. English, Assistant to Vice-President, Trans Canada Air Lines.
Mr. G. Herring, Chief Superintendent, Air and Land Mail Services, Post Office Department.

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1940



MINUTES OF PROCEEDINGS

11.00 a.m.,

July 9, 1940.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met this day at 11.00 a.m. Mr. J. P. Howden, the Chairman, presided.

Members present were: Messrs. Bercovitch, Black (*Cumberland*), Donnelly, Dubuc, Emmerson, Gray, Hansell, Hanson (*Skeena*), Harris (*Danforth*), Howden, Howe, Jackman, MacInnis, McCulloch and Sissons.—15.

In attendance were: Mr. S. J. Hungerford, President, Canadian National Railways; Mr. R. C. Vaughan, Vice President, Canadian National Railways; Mr. T. H. Cooper, Comptroller, Canadian National Railways; Mr. W. M. Armstrong, Assistant Chief of Research and Development; Col. V. I. Smart, Deputy Minister of Transport; Mr. A. V. Franklin, Railway Auditor, Department of Transport; Mr. O. A. Matthews, representing George A. Touche & Co.; Mr. D. B. Colyer, Vice President, Trans-Canada Air Lines; Mr. W. F. English, Assistant to the Vice President, Trans-Canada Air Lines; Mr. G. Herring, Chief Superintendent, Air and Land Mail Service; Post Office Department.

Information requested at previous meetings respecting elevators, coal, pensions, hotels and revenues per traffic unit per mile, was furnished by officials of the Canadian National Railways.

Mr. Herring was called and examined on mail contracts between the Post Office Department and the Trans-Canada Air Lines.

Witness retired.

Consideration of the Report of Trans-Canada Air Lines was resumed.

The Committee adjourned at 1.00 o'clock to meet again on Thursday, July 11th, at 11.00 a.m.

J. P. DOYLE,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

July 9, 1940.

The Standing Committee on Railways and Shipping met at 11 a.m. The Chairman, Mr. J. P. Howden, presided.

The CHAIRMAN: Order, gentlemen. I think we have a quorum, and we always have plenty to do in this committee. If it is the wish of the committee, we will proceed. There were a number of questions placed before the committee at the last sitting and the officials of the railway have replies to those inquiries. If it is the wish of the committee, we shall commence in this way. If I hear nothing to the contrary, we shall proceed along those lines.

Mr. HUNGERFORD: Is it satisfactory to have Mr. Armstrong read the questions and answers?

The CHAIRMAN: Yes. Mr. Armstrong will read the questions and the answers.

Mr. ARMSTRONG: There was a question asked by Mr. Donnelly in regard to the storage of grain in elevators operated by the C.N.R. The answer is:—

C.N. Tariff CR-200 covers storage and other charges on grain in Saint John, N.B., and Tiffin No. 2, Ont., elevators. These elevators are the only two operated by the Canadian National Railways in Canada. The tariff of rates in effect is on a parity with those of other similar elevators in Canada; is filed with, and has the approval of, the Board of Grain Commissioners, which fixes the maximum rates. All grain now in storage in these two elevators is being assessed the storage charges, as named in C.N. Tariff CR-200.

Mr. DONNELLY: Who runs the elevator at Halifax?

Mr. ARMSTRONG: That is a government elevator.

The CHAIRMAN: Is there any further need of discussion before we leave that?

Mr. DONNELLY: You take the maximum charge?

Mr. ARMSTRONG: Yes.

Mr. DONNELLY: As set by the Board of Grain Commissioners?

Mr. ARMSTRONG: Yes. There is a tariff.

Mr. DONNELLY: I know there is a tariff. The Canadian National charge is set by the Board of Grain Commissioners. Of course, you have been making a lower charge there. I was wondering if there was any agreement for a lower charge than the maximum that was set by the Board of Grain Commissioners.

Mr. ARMSTRONG: All the grain handled is under the tariff as approved by the Board of Grain Commissioners.

Then there was a question by Mr. Hansell as to the approximate amount of coal ordered from different parts of the country including American coal. The answer to that is:—

<i>Coal received for use in Canada in 1939</i>	<i>Quantity</i>
Eastern Canada	1,645,201 tons
Western Canada	1,274,546 "
Total Canadian	2,919,747 "
U.S.	1,046,659 "

Mr. DONNELLY: What year is that?

Mr. ARMSTRONG: That is for the year 1939.

Mr. DONNELLY: Is that more or less than it was in 1938. How does it compare with 1938?

Mr. ARMSTRONG: Mr. Vaughan says there is a little more Canadian coal in 1939.

Mr. DONNELLY: Do you contemplate there will be more Canadian coal?

Mr. VAUGHAN: Yes, there was more Canadian coal used in 1939 than in 1938.

Mr. DONNELLY: Do you contemplate that in 1940 there will be still more Canadian coal used?

Mr. VAUGHAN: No, we do not; because we cannot get Canadian coal.

Mr. BLACK: You cannot get Canadian coal?

Mr. VAUGHAN: No.

Mr. BLACK: There are lots of mines in our province that are working only one or two days a week.

Mr. VAUGHAN: Some of them do not produce the type of coal we can use economically; and in other cases the cost of haul is too high in the territory west of Montreal where that coal is used.

Mr. HARRIS: Does the 10 per cent exchange tax not help?

Mr. VAUGHAN: It helps the Nova Scotia coal situation to some extent.

Mr. HARRIS: By 10 per cent?

Mr. VAUGHAN: Yes, by 10 per cent. But the situation is, of course, that they have a definite market for coal down there. I think, as you know, that the only company shipping coal in any quantity up the river is the Dominion Coal Company, and they have a tremendous demand for bunker coal for the paper industries. They are not able to give us the tonnage of coal up the St. Lawrence river that they have in past years.

Mr. BLACK: The smaller mines down there have been operating under very great difficulty. There has been a great deal of discontent down there because, when the whole country is supposedly busy, they are working only one or two days a week in the smaller mines in Cumberland and Pictou counties.

Mr. VAUGHAN: Yes. We take considerable coal, of course, from Pictou county. I take it the mines in the Maccan District are what you are referring to.

Mr. BLACK: Yes.

Mr. VAUGHAN: We do use only a certain amount of that coal; we can use it only in certain territory economically; and they have no facilities for transportation up to Montreal.

Mr. DONNELLY: On account of the exchange rate of 10 per cent, you should be using more western coal.

Mr. VAUGHAN: Yes. We are using western coal at the present time down as far east as a place called Savant Lake which is the first division point east of Sioux Lookout; we use eastern Canada coal as far west as Cochrane on the northern line and to Sudbury and Foleyet on the south line.

Mr. McCULLOCH: I might say, as far as the Maccan District is concerned, that Mr. Avard, general manager for the Maritime Coal, was in Montreal yesterday interviewing Mr. Vaughan. The amount of coal that has been taken from that district in the last five months has just doubled as compared with the quantity taken for the first five months in 1939, and it is Mr. Vaughan's intention to increase that as much as possible. If the same proportion of increase keeps up for the balance of the year as there has been for the last five months, it will be a great deal better for that district. That is about right, is it, Mr. Vaughan?

Mr. VAUGHAN: Yes.

Mr. BLACK: What about the price being paid? Is there an increase in the price?

Mr. VAUGHAN: There has been an increase in the price in some of the districts. There has been no increase in western Canada. In districts in eastern Canada where costs have gone up, they have been allowed some additional amount for their coal.

Mr. BLACK: What would the average per ton amount to?

Mr. VAUGHAN: About 25 cents a ton in the east. But there are some mines down there that have not asked for any increase and they have not got any increase.

Mr. HANSELL: What determines the decision to get coal at any particular point?

Mr. VAUGHAN: It is entirely determined by the cost. In arriving at the cost, the quality of the coal and the length of haul is taken into account. Of course, when we buy American coal, we stack up every cost against it—exchange, freight and everything that is involved.

Mr. JACKMAN: I do not know whether this question has arisen yet or not with respect to this new ten per cent tax; but as I see it, the Foreign Exchange Control Board will get all the exchange arising from the sale of any of our goods to the United States. Then they parcel that out to the various importers in Canada who pay the tax. When they buy that exchange, are the Canadian National Railways and the Trans-Canada Airlines entirely separate and treated as if they were individual companies and not the government itself? For instance, I suppose when the government buys something in the United States in the way of munitions, they do not have to pay the 10 per cent tax because it is paying in to itself, as it were. But the railway, when buying coal in the United States, would be subject to the 10 per cent tax, would it not?

Mr. VAUGHAN: We are treated just like a private company. We pay every charge the private company pays.

Hon. Mr. HOWE: Just to keep the record straight, I might say that the government does pay the tax on its purchase of munitions. The government itself pays that tax, as the railway and Trans-Canada do.

The CHAIRMAN: Is there any further discussion? If not, we shall proceed.

Mr. ARMSTRONG: The next question was asked by Mr. MacInnis. The question was: Could the Committee have a list of the persons receiving pensions who are otherwise engaged, particularly in government business or for the railway? The answer is:—

To answer this question would entail the work of examining over 5,000 individual files. A check of the records from January 1, 1935, to date indicates that 243 pensioners under the C.N.R. General Pension Plan were given permission to take up other employment. Of this number 209 are presently living, but it does not necessarily follow they are gainfully employed. Under the C.N.R. General Pension Plan it is estimated that the number of all pensioners who received permission to take up other employment and are now living, would not exceed 275. The large majority of those requesting permission to take employment are receiving small pensions.

The CHAIRMAN: I should like to put a question there myself. Suppose the pension of one of those individuals was not sufficient to keep him alive? Is he debarred from taking employment?

Mr. COOPER: No, sir. The pension rules provide that the receipt of a pension from the railway does not debar the pensioner from taking up other employment, provided it is not considered detrimental to the interests of the railway.

The CHAIRMAN: Thank you.

Mr. ARMSTRONG: The next question was asked by Mr. Sanderson. He requested a brief synopsis of arrangements under agreement of July 28, 1938, between Canadian National Railway Company and Canadian Pacific Railway Company with respect to "Hotel Vancouver," Vancouver, B.C. Shall we read this or just put it in the record? It is merely a digest of the agreement, showing the terms.

The CHAIRMAN: Does anybody desire to hear it read?

Mr. McCULLOCH: No, put it in the record.

The synopsis is as follows:

A Company to be incorporated under the Dominion Companies Act, to be known as "The Vancouver Hotel Company, Limited" to lease and operate the Hotel property owned by the Canadian National Railway Company at Vancouver.

The authorized Capital of the Hotel Company to be \$500,000, to be subscribed and paid for by the parties to the agreement in equal amounts.

The Hotel Company to have a Board of Directors of six persons, three of whom to be nominated by the Canadian National Railway Company and three by the Canadian Pacific Railway Company, the President and Vice President of the Hotel Company to be chosen in alternate years from the National Directors and the Pacific Directors, so that in the year in which the President is chosen from among the National Directors the Vice President shall be from among the Pacific Directors, and vice versa.

The Canadian National Railway Company to complete the hotel, ready for operation, and lease it to the Hotel Company for a term of 21 years, with a provision for renewal for a further period of 21 years on the same terms, save as to right of renewal.

The Hotel Company to pay the Canadian National during the term of the lease an annual rental equal to the net earnings of the Hotel Company from operations in the next preceding calendar year, the rental payable in respect of any such year not to exceed \$280,000.

In consideration of the Canadian Pacific undertaking to close its hotel at Vancouver and to transfer certain of its furniture and furnishings to Canadian National without charge and not to operate or become interested in the operation of any other hotel at Vancouver during the term of the lease, and further agreement to allow interest at 2 per cent per annum to the Canadian National on the amount realized from sale of the property, or agreed sale value of any unsold portion, or net salvage from portion demolished (less cost of alterations or expense in connection with the sale) and also paying to the Canadian National one-half of the interest received on any unpaid instalments under agreement of sale, the Canadian National to pay to the Canadian Pacific, as received, an amount equal to one-fourth of the rental received by it from the Hotel Company.

The cost of administration of the Canadian Pacific Hotel when closed to be borne equally by the Canadian National and the Canadian Pacific, until the property is disposed of.

If the Canadian Pacific Hotel property not sold within three years of the closing of the Hotel, the hotel building to be demolished.

The Canadian National and Canadian Pacific to each be afforded equal facilities in the Hotel for its Railway, Telegraph and other business, each paying a fair rental on the space occupied by it, and assuming all expense incidental to the equipment and operation of the space.

Mr. ARMSTRONG: The next question was by Mr. Lockhart, and was as to the amount there was invested in hotels operated by the Canadian National Railways. This statement shows the investment in each of the hotels, eleven in number. May we put it in the record?

Mr. BLACK: We had better have it read, had we not?

Mr. ARMSTRONG: All right. The answer is as follows:—

Canadian National, Charlottetown, P.E.I..	\$	860,653	30
Pictou Lodge, Pictou, N.S..		199,456	21
Nova Scotian, Halifax, N.S..		2,454,125	24
Chateau Laurier, Ottawa, Ont..		8,683,773	23
Prince Arthur, Port Arthur, Ont..		1,190,866	50
Minaki Lodge, Minaki, Ont..		1,095,421	73
Fort Garry, Winnipeg, Man..		2,911,906	39
Prince Edward, Brandon, Man..		525,782	98
Macdonald, Edmonton, Alta..		2,287,590	10
Jasper Park Lodge, Jasper, Alta..		2,683,460	97
Bessborough, Saskatoon, Sask..		3,567,048	87

Mr. JACKMAN: That is the capital cost?

Mr. ARMSTRONG: That is the capital investment as at the end of last year.

Mr. JACKMAN: That still stands on the books? That is the original capital?

Mr. HARRIS: No depreciation has been set up in this account?

Mr. JACKMAN: None of these have been written off?

Mr. ARMSTRONG: No.

Mr. HARRIS: I want to be clear on that point. There is no depreciation set up in this account. Is that right?

Mr. ARMSTRONG: That is right.

Mr. BLACK: There is no reserve fund set up analogous to the depreciation fund set up in other cases?

Mr. ARMSTRONG: No, not for the hotels.

Mr. JACKMAN: The hotels were not included in that big write-off some years ago of the assets of the C.N.R.? The hotels still stand at the original capital cost?

Mr. ARMSTRONG: That is right.

Mr. COOPER: I might say that in the capital revision to which you referred there was no writing down of the hotel property investment. Certain worthless capital stocks were written out, also government loans for deficits, and unearned interest. With respect to the depreciation of hotels, I think it should also be made clear that maintenance of hotels, renewals of the fittings and furnishings is, of course, taken care of through the operating expenses.

Mr. BLACK: Is that taken care of on a regular percentage basis per year?

Mr. COOPER: No. It is taken care of currently as the expense is incurred.

Mr. McCULLOCH: It is not charged to capital?

Mr. COOPER: No.

Mr. BLACK: Is there a certain percentage taken for each hotel for the furnishings each year, or does it vary according to the earnings of the respective hotels?

Mr. COOPER: It would depend on the condition of the furniture and fittings, if they need repair or renewal, the work is done and the expense is charged to operating expense.

Mr. BLACK: It is not put on a percentage basis at all?

Mr. COOPER: No.

Mr. JACKMAN: You are not doing anything with respect to the hotels—

Mr. COOPER: As far as the buildings themselves are concerned, no depreciation is accrued.

Mr. JACKMAN: Like the Trans-Canada they can invest their depreciation reserves in new assets all the time. But in the hotels you cannot very well do that because you cannot invest sufficient money to compensate for depreciation or possible obsolescence of new furnishings all the time. It is not physically possible, is it?

Mr. COOPER: Take an example. I do not see why we should depreciate the Chateau Laurier hotel building and not the Union station building. If you adopt the practice of depreciating all property, all fixed assets, then you would have to extend it to tracks, shops, stations, bridges and other fixed property. You could not reasonably pick out a particular building and say that building should be depreciated and the adjoining building should not.

Mr. HARRIS: But we have depreciation with Trans-Canada Air Lines.

Mr. COOPER: I think that is different. The policy of applying depreciation accounting to railroads is a matter which has been considered very extensively by the United States railways under the direction of the Inter-State Commerce Commission, and while it is mandatory to include depreciation with respect to equipment it is not mandatory, and it is not expected, that the railways of the United States should include depreciation on their fixed assets, and practically none of them is doing so; and we in Canada are on all fours with the United States railways.

Mr. HARRIS: Just a question there; we in Canada are not on all fours with the Canadian Pacific Railway Company, they have depreciation accounting set up for all their equipment.

Mr. COOPER: For their equipment; no, sir.

Mr. HARRIS: What is their depreciation set up for?

Mr. COOPER: They have depreciation accounting with respect to their steamships and hotels. Their depreciation accounting with respect to their hotel system is a matter that goes back some three years; and there were certain reasons why that was done, and in that respect the Canadian Pacific is not consistent in that it does not apply depreciating accounting to its other fixed assets.

Mr. HARRIS: The Canadian National does that?

Mr. COOPER: No, they do not.

Mr. HARRIS: The Canadian Pacific does with respect to its hotels?

Mr. COOPER: Yes; and in that respect they are different.

Mr. HARRIS: But the Canadian National does not?

Mr. COOPER: That is true.

Mr. JACKMAN: When do you arrive at the point where you do not continue to build up the cost of hotels? Take, for instance, the Chateau Laurier with its capital figure of \$8,000,000 odd; when do you stop adding to that? I understand, Mr. Chairman, the witness now to say that everything now is charged against operation account. That is to say, if they put in new furniture and new fixtures, whatever new capital they put in, the higher the cost of that hotel becomes; would not that be a charge against operating account; is that not correct?

Mr. COOPER: No, I do not say that. With respect to improvements or additions, if the cost is \$500 or more it is added to property account, that is to capital account.

Mr. HARRIS: If you renewed the beer parlour, I suppose that would be a charge to operation, or would it be a charge to capital?

Mr. COOPER: If it were a renewal, it would be charged to operating expense.

Mr. HARRIS: Mr. Chairman, I wonder if we could have the capital account, say just for the last four years, to see if we could figure out what these items amount to?

The CHAIRMAN: Do you wish that submitted now or a little later?

Mr. HARRIS: I would like to have it now.

Mr. BLACK: While he is getting that figure, I do not see any statement about the Vancouver hotel in this material.

Mr. ARMSTRONG: This statement shows the hotels operated by the Canadian National system; the Vancouver hotel is operated jointly with the Canadian Pacific Railway. This statement was made up to correspond with the revenue and expense statement which was turned in at the last meeting.

Mr. BLACK: Have you any figures with regard to the cost of the Vancouver hotel?

Mr. COOPER: The cost of the Vancouver hotel up to 1939 was \$11,607,000.

Mr. JACKMAN: Was that the total investment, or the Canadian National share?

Mr. COOPER: The Canadian National provided the building completely furnished; the Canadian Pacific have no proprietary interest in the building.

Mr. JACKMAN: Just an operating interest?

Mr. COOPER: Yes.

Mr. JACKMAN: Just in connection with that; did I understand you to say that all expenditures over \$500 were capitalized?

Mr. COOPER: No. I will put it this way; any expenditure of capital under \$500 is taken into operating expense, but all maintenance and all renewal expenses, irrespective of the amount, goes into operating expenses.

Mr. JACKMAN: I see, so the capital account is therefore growing continuously from year to year and you are not setting up any depreciation?

Mr. COOPER: Assuming the property is being added to or extended. We make retirements in the same way. Take for instance the beer parlour to which you referred, if it were discontinued we would write down the investment. We deal with retirements just as we deal with additions and extensions.

Mr. JACKMAN: I quite understand. There would likely be more additions and betterments than retirements in the ordinary course of events.

Mr. COOPER: With the hotel business growing the way it is I think that is quite natural. There is no reason why a building should be stabilized at its original cost.

Mr. JACKMAN: What I am trying to arrive at is, we are widely interested, and I want to know whether we are operating at a profit or loss; whether this is an overstatement or an understatement, as the case may be, irrespective of what the accounting practice may be in any other system. If an hotel is a wasting asset it should be depreciated, 2·5 per cent or 4 per cent, you see; whatever it might be, irrespective of the accepted standard there. That being the case, then surely we could depreciate that, not charge it in our books to operations; don't you agree with that?

Mr. COOPER: Yes, except that the practice recognized in respect to fixed assets is not to accrue depreciation thereon.

Mr. JACKMAN: Irrespective of what the practice may be, I want to find what the true loss or profit may be. We operate an hotel system, and if it is true that hotels are depreciated, certainly the hotels of United hotel system are, I think ours should be also. You will agree with me there, I think. These buildings are still hotels, even though they are part of the railway system; they depreciate. I do not see how we can get a true statement of the profit and loss account unless you take into account the fact that some parts of the capital is being dissipated every year; and you are not showing it on your books.

Mr. COOPER: I think these accounts must be read with a certain background of knowledge. The balance sheet itself declares what is done with respect to depreciation accounting.

Mr. JACKMAN: That is page 11, is it not?

Mr. COOPER: Yes, page 11: "Depreciation accounting is applied to rolling stock owned by United States lines, and retirement accounting is applied on the basis of original cost to other units of the property on the System;" and, of course, that has been changed since the first of this year; depreciation accounting is now applied to rolling stock owned both by the United States and the Canadian lines; but retirement accounting is still continued with respect to fixed assets.

Mr. JACKMAN: Yes, I am not discussing what to do in connection with your rolling stock. Obviously, with your rolling stock, depreciation goes on from day to day. You can see it in your very short term equipment trust agreement. You have got to depreciate, it is too obvious a thing not to take account of; but the less obvious depreciation that goes on just as inevitably is that in the hotels and that must be taken account of if we are to get any kind of a true statement. I mean, take the western hotels, in their case perhaps depreciation is not so large an item, but there is still a great deal of depreciation. There are a great many things which are not as good now as they were when they were built. Take the east wing of the Chateau Laurier here, the hotel with which we have just been dealing, there are parts of that hotel which are not nearly as good in the old east wing as things are which are in the new wing, and that is something which must be taken into account. Unless you are going to face a real capital write off at some given date in the future you must accrue your depreciation as a charge against your operations from year to year; am I not right there?

Mr. COOPER: Yes, I have no difference of opinion on that point.

Mr. JACKMAN: Your difficulty is that you are operating on the custom of other places; which I think you will agree with me is probably wrong, or it does not show a true picture. I do not see why we should not do it correctly. I do not see why we should follow a wrong system even if there may be a lot of precedent for it. We should get a true statement of the situation.

The CHAIRMAN: Gentlemen, I do not believe it is the function of this committee unduly to criticize control of the railway. I think we are here for the purpose of receiving their report and enquiring into the control and management of the railway, and in our final report if we have any cause to differ from the management of the railway we can bring that to the attention of the house then.

Mr. HARRIS: Mr. Chairman, on a point of order I think much of this criticism is not so much criticism as just seeking information.

The CHAIRMAN: I was inclined to think that we had gone past the point of seeking information. We are certainly here to get information, but not to dispute with members of the railway plans adopted by them in its control. I would say, if we believe improvement could be made, we should make mention of that in our report to parliament, which will be submitted forthwith. I may be wrong, but that is my attitude.

Mr. JACKMAN: I might say, Mr. Chairman, that as a new member I should be sufficiently humble about everything, and I may make a few errors in trying to find my way about; at the same time the minister is here, and this is a question of major policy, and I think we are at least entitled to an answer as to whether or not what we are talking about, what I am suggesting, is entirely irrelevant and merely endeavouring to make trouble, or whether there is something in it, and whether it should be given consideration by the Minister of Transport and by his department.

Hon. Mr. HOWE: If I might answer that, I think it is hardly fair to say that we do not give a true picture. The true picture, of course, is that in the

Canadian National Railways we do apply depreciation on rolling stock, but not on the balance of the system, on the fixed charges. Now, the theory of that is well established in railway accounting. This is the theory, that with a normally maintained railroad there is no depreciation in that renewals are made as parts wear out. For instance, as a rail wears out it is replaced by a new rail and that is charged to operating account. That does not apply, you might say, to railway stations and hotel buildings. The Canadian Pacific make it a practice to depreciate their hotels and steamships and nothing else. It is rather hard to find the logic of applying it to hotels and not applying it to railway stations and things of that sort. As a matter of fact, we do not, and that is the true position as far as the Canadian National Railway accounting goes. If we had a large surplus I would be very keen for that sort of thing, but I am opposed to setting up funds within the railway as long as that railway is operating a deficit operation. We pay the railway only sufficient cash to meet its cost of operation, we do not think it desirable to set up a depreciation fund within the system. If we were to set up depreciation we would be called upon for a larger cash requirement, and the railway presumably would have a depreciation fund within its set-up. We have not considered that that was wise.

Mr. JACKMAN: May I say to the minister, Mr. Chairman, with respect to the United States that I do not think the hotel systems of that country are bound up with the railway systems as is the case in Canada.

Hon. Mr. HOWE: I did not intend to speak of the United States; I was speaking of the Canadian Pacific Railway.

Mr. JACKMAN: Their hotels must bulk largely in their accounts too as they do in the Canadian National. I think the hotel systems of both our railways are fairly substantial items. At the same time, I admit there may be very good grounds for differentiation between our system and that typical of American railways. And in answer to your other question about the government supplying cash to meet the deficit, it is not necessary in this case. You merely set up an account to get at what your depreciation should be. It is not necessary to increase your deficit to do that, you set up a bookkeeping item which merely indicates to you what that amounts to. We do not need cash to show this item. We must show our capital asset as being depleted from year to year rather than standing on our books at a certain figure until we lose the whole thing. I think there is a real point of policy here, but I do not wish to pursue it further. Possibly some mention of this point may be desirable in the report of this committee.

Mr. HARRIS: Just one other question on this matter of depreciation: Is depreciation accounting applied on the rolling stock owned by the Canadian National Railways?

Mr. COOPER: Yes, from the 1st of January, 1940.

Mr. HARRIS: One other question on the point: I indicated a few moments ago when I asked for the capital amounts that I would like to have it shown as at the end of the last three fiscal years for one hotel. I would like to have the capital amount in the form of a statement for each one of these hotels for the last five years. When they make the computation they might put in the total figure. It is a very simple matter. They probably have it there.

Mr. COOPER: May I go back for a second to the C.P.R. situation? I think it is common knowledge that within the last three or four years they gave up operation of the Place Viger Hotel and the Hotel Vancouver. Had they been on retirement accounting I am inclined to think that the charge would have been quite as much as if they had been on depreciation accounting.

Mr. JACKMAN: They take it out of their capital assets and charge it to the operations in one year.

Mr. COOPER: Or to depreciation reserve. If they were on depreciation accounting they would write the loss off to reserve.

Mr. JACKMAN: But it is better to know from year to year where you stand. In the case of the Chateau Laurier, that hotel must be making a mint of money. Any hotel that is soundly constructed in finance at the beginning—I am not an expert on hotel accounting—and not charging more than sixty per cent—that surely must be the break-even point—when it is operating at perhaps ninety or ninety-five per cent, must be making money. When you do not adopt depreciation accounting you are really overstepping your profits from year to year, as you are not assessing the true cost of operating the hotel because in every year there are so many hundred thousands of dollars in true depreciation which should be written off and which would give you the true picture of the net profit. That is what I am trying to arrive at.

Hon. Mr. HOWE: These accounts are merged. I doubt if the railway ever gave to other than the committee a statement of the individual receipts and expenses of each hotel; it is part of the system. I can see your point. You would suggest having all accounts within the account to show that depreciation had accrued in hotels to such an extent. However, it would only be an account; it would not represent money, I hope, because we would not like to put up the amount that is required to depreciate the hotels as a deficit.

Mr. JACKMAN: I do not see how we are going to know whether the hotels of the railway are making or losing money.

Hon. Mr. HOWE: By and large the test of that is the maintenance of your system. If the maintenance is at a standard, presumably your assets by and large have not wasted. You can take out one item and say that is not true of this item, but over a far-flung system representing over two billion dollars it works out fairly well. These items are not large in the bulk.

Mr. JACKMAN: I would not deign to tell one of our Canadian engineers how depreciation works even for a railway system.

Mr. HARRIS: We are only interested in seeing the debits and credits on property charged. We cannot hide behind the skirts of an auditor, Mr. Chairman.

Hon. Mr. HOWE: I think it is a question of what to do. If this committee votes to recommend to the management that we charge depreciation accounting on hotels, we will be glad to set up an account in that way. But I doubt if it will solve the railway problem particularly.

Mr. BLACK: Where is the statement of the results of the operation of each of these hotels? I have not seen it, or even a summary. I have not had a chance to study these reports.

Hon. Mr. HOWE: I do not think they are ever made public.

Mr. ARMSTRONG: There was a statement put in the record at the first meeting of the committee showing the results of the operation of each hotel.

Mr. HARRIS: Does that statement give the capital expenditure?

Mr. ARMSTRONG: No; just the revenues and expenses.

Mr. HARRIS: Our anxiety is, and I think the minister is cognizant of what is concerned, the steady building up of our capital investment in railways from year to year. That is what is worrying the Canadian people. I ask the simple question. Would that statement, to which our friend refers, show the capital expenditure in all the hotels for the year 1939 or, in other words, the increment to the capital that is invested in hotel properties? Would it show that?

Mr. ARMSTRONG: We would be very glad to give a statement showing that, but none that is before the committee shows it.

Mr. HARRIS: It shows the gross earnings.

Mr. ARMSTRONG: Yes.

Mr. BLACK: There was a statement submitted at the first meeting. When do we get the minutes of our deliberations?

Mr. McCULLOGH: This morning.

Mr. HARRIS: Does that show the expenditures and net earnings for each hotel, Mr. Chairman?

Mr. ARMSTRONG: Yes.

Mr. HARRIS: The only thing that is missing is the capital expenditure. This answers the other four questions, Mr. Chairman. The capital expenditure is not here, and there is no objection to receiving that, Mr. Chairman.

The CHAIRMAN: Next part, gentlemen.

Mr. ARMSTRONG: I think that covers all the questions that were asked by the committee, Mr. Chairman.

Dr. Donnelly asked for an analysis of the traffic units per man hour. We suggested that we could furnish such a calculation, but as to whether it would really mean anything or not would be a question. We have done it on two bases. One is on the basis of equating the passenger miles to revenue ton miles—three passenger miles per revenue ton mile; also, as Dr. Donnelly suggested, on the basis of four passenger miles per revenue ton mile.

The CHAIRMAN: Do you wish to put that on the record?

Mr. ARMSTRONG: Yes.

CANADIAN NATIONAL RAILWAYS

(ALL INCLUSIVE SYSTEM)

TRAFFIC UNITS PER MAN HOUR

Year	(1)	(Index)	(2)	(Index)
1923..	98.23	100.0	104.43	100.0
1924..	96.82	98.6	103.11	98.7
1925..	102.49	104.3	108.89	104.3
1926..	105.43	107.3	111.87	107.1
1927..	106.09	108.0	112.67	107.9
1928..	113.74	115.8	120.08	115.0
1929..	101.26	103.1	107.28	102.7
1930..	96.41	98.1	102.10	97.8
1931..	92.33	94.0	96.98	92.9
1932..	95.45	97.2	99.85	95.6
1933..	92.19	93.9	96.72	92.6
1934..	96.71	98.5	101.34	97.0
1935..	101.03	102.9	105.94	101.4
1936..	104.26	106.1	102.26	104.6
1937..	106.96	108.9	112.62	107.8
1938..	109.26	111.2	114.94	110.1
1939..	119.86	122.0	125.18	119.9

(1) (Total Passenger Miles x 3 plus total revenue ton miles) ÷ Estimated Operating Man Hours.

(2) (Total Passenger Miles x 4 plus total revenue ton miles) ÷ Estimated Operating Man Hours.

Mr. DONNELLY: I should also like to have added to that the total capital invested per units of work done, and I should like to have it for other railroads as well.

Mr. ARMSTRONG: I have made a note of that.

The CHAIRMAN: Gentlemen, when we adjourned on Friday night we were discussing the Trans-Canada air lines, and we were more particularly engaged in a discussion of the all mails and the tariffs. A request was made that the Post Office Department have one of their officials appear before this Committee in this connection. Mr. Herring is here this morning to answer the committee, and if it is the wish of the committee we might ask him to make a statement in connection with the matter. What is your wish?

Mr. HARRIS: Before he makes the statement might I make one suggestion; that while he is making the statement he elaborate on the air mail cost to the Post Office Department. As I have the figure for 1939-40, it is \$2,250,000, and the estimate for the year 1940-41, I think, is about double that. I wonder when he is on his feet making the statement if he will include the reasons why that is increased so substantially.

Mr. HERRING: In reading over the minutes of the last meeting some reference was made to the sum of \$2,000,000, and there seemed to be some doubt as to a discrepancy between the amount that was actually paid to the Trans-Canada Air Lines and the total vote. Our vote last year was approximately two and one quarter million dollars. The amount that was actually paid to the Trans-Canada Air Lines amounted to approximately one million and three quarters. The difference is made up by payments which we have made to twenty-eight outlying air mail services.

In regard to the present estimates, here is a further increase of approximately two million dollars. That can be explained by the normal development of the Trans-Canada Airlines. I can give you the program in detail, if you wish, for the coming year.

Mr. BLACK: I should like Mr. Herring to repeat those figures.

Mr. HERRING: The amount paid during the fiscal year 1939-40 to the Trans-Canada Air Lines amounted to \$1,754,454.80. You will understand that the records of the Trans-Canada Air Lines are based on the calendar year. Ours are based on the fiscal year, so there may be a discrepancy there.

Mr. HARRIS: There is more than that. What about the bush lines?

Mr. HERRING: Pardon?

Mr. HARRIS: There is more than the fiscal year accounting for the difference between \$2,250,000 and \$1,754,000.

Mr. HERRING: That is correct.

Mr. HARRIS: The balance is for bush lines.

Mr. HERRING: Exactly. During the same period we paid \$551,447. Those two amounts total \$2,325,902. We actually exceeded our appropriation for air mail transportation last year, but we got the balance from land mail services, so the vote was for one sum.

Mr. BLACK: Air mail subsidies, is it, and land mail service?

Hon. Mr. HOWE: Services.

Mr. HARRIS: On what authority do they take money from the land mail service and apply it to the air mail service?

Mr. HERRING: That could be done by the approval of the treasury board. It is one sum, and the particulars give the break-up. I do not think it was ever intended that we should rigidly adhere to the exact amount for each item. But to make any charge we must receive the approval of the treasury board.

Mr. DONNELLY: Have you any way of estimating how nearly the revenue you receive pays for the services of carrying this mail?

Mr. HERRING: It is almost impossible. For your information, we have made checks from time to time of the number of letters in a pound of air mail, and the figures vary all the way from forty or forty-two to sixty per pound.

For purposes of calculation our figures are based on an average of fifty to the pound. The air mail postage is six cents for the first ounce and five cents for each succeeding ounce. The ordinary rate for postage is three cents for the first ounce and two cents for each additional ounce. Therefore, there is a definite increase in revenue arising from air transportation of three cents per unit on the basis of fifty letters to the pound, which gives us a definite net revenue for air conveyancing of \$1.50. On the top of that the conveyance of first-class matter is undoubtedly the most profitable—probably the only profitable—operation we have, and in consulting our administrative officers it was considered to be fair to take at least one cent out of the three cents as profit which could also be reasonably attributed to air transportation. That would give us a revenue of four cents per letter multiplied by fifty which would give us a revenue of \$2 a pound, which could be charged against air transportation.

During the year 1939-1940 there was carried by the Trans-Canada Air Lines the matter of 740,000 pounds, and the gross amount of postage was approximately \$1,963,000. That does not give the proper picture at all because that shows the whole six cents. Now we cannot attribute the whole six cents to air mail transportation. If we were to cut that in half we would be much closer to the truth. But as nearly as we can figure it last year's operations by the Trans-Canada Air Lines showed us a loss of approximately \$425,000. And event that is not true because in the transportation of mail from Moncton through to Vancouver there is some duplication which cannot possibly be avoided, and there is no machinery that we can create which would enable us to eliminate a double counting on certain poundage. I should like to make that quite clear, because I am not in a position to give you any exact figures to show you the true picture. I will say this, however, that if the volume that they are carrying now were doubled I am quite satisfied in my own mind that it would be a self-supporting proposition; that the amount of money that we would get for air mail transportation would be sufficient to cover the expenditure arising from it.

Mr. DONNELLY: You do anticipate that it may be?

Mr. HERRING: Yes; the records show that there is a very definite increase in the volume. We rise suddenly and we have a slack period where the public become hypnotized and do not do any business. Then it moves up again. We never move back. Just to crystallize that, in the year the Trans-Canada Air Lines commenced operations, commencing in the year 1937-1938 they carried 39,000 pounds. In the year 1938-39 they carried 454,000 pounds, and then last year they carried 740,000 pounds, and there is every indication it will keep on moving up. I am offering my own personal opinion that in the next five years the carriage of mail should not cost us anything because the amount of revenue that the Trans-Canada Air Lines will get from other sources will be sufficient to defray the most of the cost to the Post Office Department for the conveyance of mail. Of course, I am an optimist. People may not agree with me.

Mr. POULIOT: Mr. Chairman and gentlemen, as our friend Mr. Maybank cannot be here to-day may I be allowed to ask a few questions when you are through with this matter?

The CHAIRMAN: What is the wish of the committee? Mr. Pouliot intimated beforehand that he wished to ask some questions at this sitting.

Mr. GRAY: I move Mr. Pouliot be heard.

Hon. Mr. HOWE: Are your questions on Trans-Canada?

Mr. POULIOT: I will tell you what it is. It is air mail with regard to the T.C.A. only.

Hon. Mr. HOWE: That is fair.

Mr. HARRIS: I was wondering if the questioner would wait until we receive a statement.

Mr. POULIOT: Surely; that is what I suggested.

Mr. HARRIS: We are not through with the statement from the present witness, as I understand it.

The CHAIRMAN: It is your committee.

Mr. HARRIS: I asked a specific question as to the distribution of this \$4,460,651 which is being asked for this year for mail services whereas last year the amount was \$2,250,835. I am asking now about the \$4,400,000 odd. I asked that before the witness took the stand.

Mr. HERRING: The Trans-Canada Air Lines is in process of development. During the present year the frequency of Trans-Canada service from Montreal to Vancouver has been increased from one round trip per day to two round trips per day.

EXAMINATION OF MR. HERRING

By Mr. Harris:

Q. Did that go into effect on April 1?—A. April 1, yes.

Q. They are actually in operation?—A. Actually in operation. They put the service in operation on their own volition until such time as the question of payment was determined. Now that has already been determined. There is additional service between Montreal, Ottawa and Toronto, and we have to make a full year's provision for the Moncton-Montreal service. During the last fiscal year it was only on for two or three months. Possibly on the first of next month there will be a service between Toronto, London and Windsor, and we hope there will be a service between Toronto and Buffalo and Toronto and New York although the last two cases are still undetermined. It requires some reciprocal understanding with the United States. The amount of money that the Trans-Canada Air Lines will get for that 100 per cent performance amounts to \$3,610,726.80. That is an increase from last year to the Trans-Canada Air Lines of \$1,856,000. In addition to that there is one extra round trip between Vancouver and Seattle. The difference between last year's appropriation and this year's appropriation will go to the outlying services which are mostly paid on a poundage basis, an increase there which, with the volume, is going up steadily.

By Mr. Donnelly:

Q. In other words, you mean to tell the committee you are practically doubling the service of Trans-Canada Air Lines?—A. Yes.

By Mr. Harris:

Q. If we double the service, have any lines been discontinued or any services been discontinued?—A. None whatever. Actually the records show that the services that we are going to put on this year are going to prove inadequate.

Q. Just one other question. Has there been any substantial change in the rates?—A. Change in the rates? The contracts in effect now involve volume at the rate of 60 cents per mile. On the 31st of December next the initial period expires, and the rate which will be determined for next year will be based on the difference between the expenditures and the revenues. If the T.C.A. have a loss that rate of 60 cents will increase; but according to the records we have—they now know practically six months of the year—we look forward very confidently to a very substantial reduction from the 60-cent rate.

The CHAIRMAN: Any further interrogations?

By Mr. Pouliot:

Q. Thank you, Mr. Chairman and gentlemen. I have just a few questions to ask. In the first place, Mr. Herring, will you kindly look up the last page of the T.C.A. report and tell me if on the second line of the Operating Revenue there is the figure of \$1,632,873 for mail. If that is divided by the mail carried by pounds according to the statistical data, 523,906 pounds, we have an average of \$3.10 which was paid for air mail.

Mr. BERCOVITCH: Per pound.

Mr. POULIOT: Per pound.

Mr. JACKMAN: Twenty-two and a half ounces.

The WITNESS: The operating revenue is \$1,632,000, and the mail carried in pounds amounted to 523,000. The amount of mail carried on Trans-Canada Air Lines does not affect their revenue at all.

By Mr. Pouliot:

Q. I know that. I did not ask you for a lecture. I asked you to answer my question.—A. I cannot very well give it.

Q. It is \$3.10, the average price?—A. Approximately, yes.

Q. Now cast your eye a little lower down in the column headed "Operating Revenue" and you will see the figure \$23,613.01. That amount was paid for express. The total weight of express in pounds was 45,819 pounds. If you divide the money received for express by T.C.A. by the amount of pounds carried you have an average of 51½ cents for carrying express?—A. Yes.

Q. Therefore what is paid for air mail is six times the amount paid for express?—A. That is right.

Q. Is there any sortage of mail on the plane?—A. No.

Q. They are just carrying bags?—A. Yes.

Q. Therefore the service rendered by T.C.A. on mail is exactly the same as the service rendered for express?—A. Yes.

Q. Carrying bags or parcels?—A. Yes.

Q. It costs six times more?—A. That is correct.

Q. Well, now, would it be possible to table a copy of the contract between the Post Office Department and the T.C.A.?—A. Quite possible.

Q. You will do that. Is it the pleasure of the members of the committee to have that contract published or just shown to the members? I leave it to you gentlemen to decide.

Hon. Mr. HOWE: The contract is a public document, I believe, is it not?

Mr. HERRING: Yes.

Mr. BERCOVITCH: Is it a long document?

The WITNESS: Fairly long, yes.

Mr. BERCOVITCH: Perhaps it might be deposited.

Hon. Mr. HOWE: There is no trouble about tabling it.

Mr. BERCOVITCH: We can look at it and save the expense of printing it.

Mr. HERRING: Mr. Chairman, the contracts with Trans-Canada Air Lines involve payment of 60 cents per mile; there is also involved the requirement by the Trans-Canada Air Lines to carry all mail offered up to 1,200 pounds capacity; and it does not make any difference to us in the actual expenditure of money whether they carry ten pounds a trip or twelve hundred pounds a trip.

Mr. POULIOT: I know all that. The committee was kind enough to allow me to ask some questions and I will proceed in order and if you have some observations to make after I am through you can make them if it is the wish of the committee. Would it be possible to have a copy of the departmental reports and memoranda of the Post Office Department recommending the approval of the contract? Would it be possible to table them?

Hon. Mr. HOWE: The contract was made on the basis of the legislation passed in the House of Commons. I do not think there would be any memoranda recommending it.

Mr. POULIOT: Yes, sir; but the rate was not specified in the legislation passed in the house and what I wanted to know was some information with regard to the recommendation to the officials of the Post Office Department for the approval of the 60 cents for mail or 59 cents and a fraction. There is nothing in the legislation about that. That has been done by Order in Council. I should like to have the memoranda to the Post Office Department recommending the acceptance of the 60 cents for mail.

Hon. Mr. HOWE: Is there such a document?

Mr. HERRING: No.

Hon. Mr. HOWE: Mr. Herring says there is no such document.

By Mr. Pouliot:

Q. Who made the original draft of the contract between the Post Office Department and the T.C.A.?—A. I did.

Q. You did?—A. Yes.

Hon. Mr. HOWE: The terms were settled between myself and the postmaster general of the day and I presume Mr. Herring was only carrying out the instructions on the draft.

Mr. POULIOT: I know.

By Mr. Pouliot:

Q. Was that contract dictated to you by the postmaster general or did you draft it yourself?—A. I drafted it after the details were settled by the government.

Q. Yes, I know. But who recommended to the government the acceptance of that contract from the point of view of the Post Office Department, Mr. Herring? You have been superintendent of the air-mail service for many years?—A. Yes.

Q. Since 1928?—A. Yes.

Q. The time that you were just carrying a few bags down the St. Lawrence?—A. That is correct.

Q. Therefore you are qualified as an expert in the Post Office Department, an expert in air mail business.

By Mr. Donnelly:

Q. I presume you consulted the United States records, what they were doing?—A. No.

Hon. Mr. HOWE: I think the method that was followed with regard to the legislation was this. According to the legislation T.C.A. was actually to carry the mail at cost. We obtained an estimate from experts in Trans-Canada Air Lines as to what the cost would be and we arrived at a figure; but we did not expect then to make in the first year's operation the showing that we thought they might reach in the second or third year of operation. As a matter of fact they have reached it the second year of operation, exceeded it, bettered it. The 60 cents was arrived at on the basis of the revenue of the new creation, and it was an arbitrary figure. It disappeared from the contract for this year and the automatic provision of the legislation applies. The cost of carrying mail in future will be the cost as determined by the operation in the previous year.

By Mr. Pouliot:

Q. I understand it perfectly well; but the Post Office Department did not come to this conclusion of signing the contract unless it was recommended by the

officials of the department, and I would like to know who in the Post Office Department has recommended the acceptance of 60 cents per mile?—A. Mr. Pouliot, there was nobody—no official in the Post Office Department had anything to do with the determination of the 60 cent rate.

Q. I did not say that. That was not my question. It is not the fixing of the amount that I am speaking about. It is the acceptance of the amount by the Post Office Department. It is an altogether different thing?—A. That was determined by the Governor General in Council—

Q. That is not the question at all. You understand me. I would like you to answer me as you understand me. The amount was set at 60 cents per mile and the contract was 60 cents per mile. It was signed by two parties, the T.C.A. and the Post Office Department, was it not?—A. Yes.

Q. I did not ask you who advised the T.C.A. to sign it or to make it; who advised the Post Office Department to accept it?—A. That is something I could not answer. The postmaster general could have.

Q. The postmaster general on the advice of somebody—a technician of some kind—and I would like to know who suggested to the postmaster general the acceptance of a flat rate, stipulating it in the contract? That is what I want to know. It is most important?—A. I cannot answer your question.

Hon. Mr. HOWE: Some ministers act without advice.

The CHAIRMAN: Is it not possible they had no option in the matter and were forced to accept that rate?

Mr. POULIOT: No, Mr. Chairman, with all due consideration and respect, I submit that the postmaster general acted on the advice of his experts, and I presume that Mr. Herring is one of those experts; and I want him to tell me what happened there and how it happened that the postmaster general was induced or encouraged to accept that rate as a fair rate.

The CHAIRMAN: In plain terms your question is: who recommended to the postmaster general the acceptance of the agreed rate of 60 cents?

Mr. POULIOT: Exactly.

Mr. HERRING: I cannot give you the answer in so many words. Certainly I was—I took part in some of the discussions, and the most interesting discussion, I think, was as to the equipment that should be used. Now, they are all mail service standard—

Mr. POULIOT: That does not answer me. I asked you about that 60 cents.

The CHAIRMAN: I suggest you allow Mr. Herring to make his statement.

Mr. POULIOT: Very well.

Mr. HERRING: The question was discussed as to what type of machine should be used for flying the mail. From Post Office Department standards exclusively the small plane carrying nothing but mail would have answered the mail service purposes, and that would have involved a very much lower cost of operation than a large plane such as we are using now.

By Mr. Pouliot:

Q. Mr. Herring, what is the difference providing the mail is carried from A to B in a small plane or a big plane—what difference does it make?

Mr. BERCOVITCH: Allow the witness to answer. Let him make his answer and when his answer is complete we will see if it is satisfactory or not.

Mr. POULIOT: Very well.

Mr. HERRING: As far as mail service is concerned, we can use, as I say, a small machine with capacity for nothing but mail—no wonderful furnishings or anything else—and this machine could be bought from \$35,000 to \$50,000 per unit, but with the knowledge we had and knowing the number of miles

involved in flying—I am speaking from memory now—I think they mentioned something like 40 or 50 cents per mile at the time as a requirement of the Trans-Canada—

Mr. HARRIS: I thought you said 30.

Mr. HERRING: Anything from 35 to 50, but it is definitely less than 60 cents. The Trans-Canada bill makes it obligatory on the Trans-Canada Air Lines to supply equipment which will meet the requirements not only of mail conveyance but also passenger and express traffic which leads up to the determination of the rate.

By Mr. Pouliot:

Q. You have nothing to do with that?—A. The equipment determined upon cost over \$130,000 per unit, and on that basis the 60-cent rate was certainly not excessive.

Q. Is that what you said to the postmaster general before the contract was signed?—A. I do not recollect having said it, but I would not deny it.

Q. It was laid before you at that time?—A. Absolutely.

Q. And you had the opportunity to meet the postmaster general before the contract was signed?—A. Yes.

Hon. Mr. HOWE: What type of plane would you suggest would cost \$40,000 or \$50,000 and would be sufficient to carry the mail?

Mr. POULIOT: I do not understand. Mr. Herring did not make it clear to me. The operation of the rate for carrying mail, just because the planes were larger and were used for faster service also—I do not see what difference it would make in the rate for carrying mail.

Hon. Mr. HOWE: It make this difference: with the type of planes we have they have a long range, are able to maintain a regular schedule and have also high speed. The plane you buy for \$40,000 or \$50,000 would neither have the range of the present planes or be able to make the schedule of the present planes regardless of whether they could carry passengers or not.

Mr. POULIOT: Now, you are entering into the domain of the technologists and neither Mr. Herring nor myself are experts.

And now, would it be possible to have a detailed list of all the T.C.A. small services showing (1) the distance; (2) payments by the Post Office Department to the T.C.A., cost to T.C.A.; (3) actual returns to the Post Office Department. I would like to have a calculation showing each particular service of the T.C.A.: first, the distance; second, the cost; third, the return for each service; I would like to have also the frequency. I leave it to you, if it is the pleasure of the committee, to get that information. I think it would be very valuable to the members. If actual records are not available, what are the estimated revenues. What was the estimated revenue in each case for each service?

Hon. Mr. HOWE: I think, Mr. Pouliot, you will see the difficulty of getting the revenue of a particular service. A letter is, for example, mailed in Seattle and goes through Moncton, and it pays only 6 cents, whereas another letter is mailed from Seattle and goes to Vancouver and it pays the 6 cents as well. How could you divide the over-all cost?

Mr. POULIOT: There is something surprising. It astounded me very much. It is that there is a contention among officials of the Post Office Department that there have been surpluses in the air mail service since 1932—

Mr. HERRING: No.

Mr. POULIOT: And what I heard from Mr. Herring surprised me very much. Mr. Herring says no; but I will show him something that will surprise him very much.

By Mr. Pouliot:

Q. Mr. Herring, did you prepare this list?—A. Yes.

Q. Now, I shall read you the list and I will ask you to answer me. From 1927 up to 1928 there were deficits—from 1927-28 to 1931-32 there were deficits—but in 1932-33—I read two columns—and in the first column there was the cost and in the second column the estimated postage collected—1932-33 cost \$200,856.55 and the estimated postals collected were \$291,522.71, which meant that in that year 1932 there was a surplus of approximately \$90,000, not a deficit.

Hon. Mr. HOWE: But the postage collected is not the revenue, there are other services performed for that postage, there is the service of distribution and so on. Mr. Herring was saying he would only credit us with 4 cents of air mail as against 6 cents collected.

Mr. POULIOT: The estimate of the postal collected is something fantastic. There are surpluses between cost and estimated postage collected each year since 1932-33, is that not so?

Mr. HERRING: Yes.

By Mr. Pouliot:

Q. And that was for the information of the high ups in the Post Office Department?—A. Does that refer to Trans-Canada Air Lines?

Q. It refers to all; it is for the air mail service, but I do not think that the service is paying more than the T.C.A.—but it is not the time to make subtle distinctions.—A. You have fallen into a popular error. Let me give you a concrete case. Take a service from Edmonton going up to the Mackenzie river, and we pay the contractor \$100,000 a year, and the estimated postage collected is \$200,000 a year. There would be some reason for your remark if we could assume that the whole mail that was offered for conveyance on that line originated at Edmonton and that it was just carried up. All those figures, that mail that is tabulated there comes from all over the country; it travels part of the way by train, part by car, and any other conditions we have, and they all must contribute to the cost; it must bear its share of the overhead.

Q. I agree with you entirely, to your great surprise, and it is because I agree with you on that that I am very much surprised there is a surplus in the estimation of postage collected.—A. We do not use the word surplus.

Q. Oh, no, no, you do not use the word surplus, but you show the figures and the figures speak for themselves, and each figure is higher than the other. I do not want the members to be bored by this argument, but, on the other hand, I have the figures and there is a surplus for last year of \$490,000.—A. Yes, of postage collected.

Q. That requires a few dozens of pencils to make the calculation?—A. No, it is not very difficult.

Hon. Mr. HOWE: There is quite a difference between express and mail. With express you are charged the rate from one point to another and you haul from that point to another; with mail you can put on a 6-cent stamp and you can carry a letter to any town or village in Canada regardless of whether it is on that air mail route and it will be delivered. The 6-cent letter calls for a number of services that the express does not call for.

By Mr. Pouliot:

Q. It may be so. I agree with Mr. Herring entirely on what he says, but what I find very strange is how that estimation was made. Mr. Herring gave some explanation some time ago and my mind is not satisfied yet.—A. You wish to know how we arrive at the estimated postage?

Q. Yes.—A. This is the method we apply. On those outlying routes we take our 100 pounds of mail and we break it up into so much first, second, third and fourth classes, in weights. We know the postage rates for each class. I do not pretend it is 100 per cent accurate, but if it is, 55 per cent of the total are newspapers at 2 cents a pound, and 10 per cent will be first class matter, and the balance will be other kinds. It is simply a matter of determining the average revenue of postage paid.

Q. Was that calculation made by the air mail branch of the Post Office?—A. It was made by our field bases on instruction.

Q. How many are there—field officers?—A. We have a district collector located at different points.

Q. Do they get reports from the postmaster on the weight?—A. No, not from the postmaster.

Q. How can they calculate it if they do not receive a report from the postmaster concerned?—A. Take this Mackenzie river service. 99 per cent of the mail goes through the Edmonton post office. We are not worried about what happens to the other 1 per cent. They can get perfectly good figures from the terminal office.

Q. You are satisfied with that. You have no yearly, monthly or weekly report from the postmasters on the line?—A. Not as far as weights are concerned, because the bills are made up at the terminal office.

Q. Referring to page 6 of the T.C.A. report, what was the P.O. revenue from the P.O. expenditure for the Montreal, Ottawa, Toronto, air mail schedule since July 18th, 1939?—A. I could not give you that at the moment.

Q. Would you please send this to the clerk of the committee, if it is the pleasure of the members of the committee? Would you also give an answer to the same question for the second daylight schedule with an extension on a training basis from Montreal to Moncton from November 1st, 1939, to January 1st, 1940.—A. I can get that.

Q. Thank you. I should also like an answer to the same question for the same service from January 1st, 1940, to July 1st, 1940?—A. Well, I would not be able to give you July. I can give it to the end of May.

Q. Yes. Give me what you can. Thank you. Why was the carriage of first-class mail discontinued and regularly surcharged air mail only handled on those services?—A. During the experimental period—that is really when the pilots were becoming familiar with the routes—and where there was a possibility of general disruption, we arranged to have any first-class mail available carried by air, but we took particular care that that would not be delayed. The service was not sufficiently regular, in our opinion, to justify imposing the air mail rate on the public; but just as soon as the pilots became sufficiently familiar with the operation, the regular air mail service was put into effect.

Q. How did the Post Office Department figure out the T.C.A. air mail estimates for 1940; I mean, for the calendar year 1940?—A. The calendar year? We do not pretend to. We do not work on the calendar year.

Q. Oh. How did the Post Office Department figure out the estimates for this year, 1940-41?—A. We know what the programme is. The programme is determined in consultation with the Post Office Department and the Department of Transport.

Q. Yes?—A. We know the number of miles involved and we multiply by 60 cents.

Q. And do you represent the Post Office Department at those sittings?—A. As a rule, yes.

Q. You figure up the estimates, together, do you? Do the representatives of the T.C.A. and the P.O. officials meet together and prepare the estimates?—A. No.

First of all, the discussion is as to the intensity of the service, and that question is completely settled before we touch the estimates. The T.C.A. have nothing to do with our estimates at all. We look after those ourselves.

Q. They prepare their own estimates and you prepare yours?—A. They have got to convince us that there is justification for any increased service.

Q. May I say at that point that the thing I do not understand is this. If my memory serves me right, at the last sitting someone from the T.C.A. said to the committee that the air mail estimates for this year were \$1,900,000. Is that right? I heard that there were some estimates of the probable revenue of the T.C.A.

Mr. COLYER: Probable revenue?

Mr. POULIOT: \$1,960,000, I think. I have not the book here.

Mr. COLYER: \$3,100,000, I believe is the figure.

Mr. HERRING: \$3,600,000.

Mr. COLYER: For our calendar year it is \$3,100,000.

Mr. POULIOT: \$3,600,000?

Mr. COLYER: \$3,100,000.

Mr. POULIOT: Yes, thank you.

By Mr. Pouliot:

Q. There was an estimate that the bush contracts will be \$1,200,000 or \$1,300,000.—A. Well, it is the difference. Yes, about that. That is about right.

Q. Now, Mr. Herring, would it be possible to have a list of the reasons for such an increase?—A. Very simple.

Q. Showing what were the increases, and showing the expenditure and the probable revenue on each one of them?—A. I could give you the revenue. I could give you an estimate of the postal charges.

Q. Yes?—A. For last year.

Q. Yes?—A. But I could not pretend to do it for this year.

Q. You cannot do that for next year?—A. No. It is only a guess.

Q. Or for this current year?—A. I can show you the poundage for last year, the expenditure for last year and the amount we have ear-marked for this year.

Q. Yes. Does the Post Office Department make a profit on any one of the air lines?—A. Well, if you will allow me to explain that, I should like to put it this way. An outlying district suddenly comes into being. For instance, suppose a gold mine is found and a community grows up. We have got to supply that community with postal service. As a rule, nineteen times out of twenty, there are no surface means of transportation. We consequently send it in by air. We do not make money on it. We do not make a profit on it. At least, that is my own claim. But if something suddenly happened which caused the removal of the air service and its replacement by surface means, it would cost the department two, three, four, five or six times as much, on account of the difficulties of surface transportation.

Q. Who proves to the Post Office Department that an increase in frequency or an extension of a service is necessary?—A. That is determined by the records. We know the amount of mail that goes up there. We know the revenues of the offices served.

Q. Well, when there is a new service, there is no mail to begin with?—A. No. A new service such as I am speaking of is very much a casual proposition. The frequency is more on the if, as and when basis. The operator carries it in generally at a nominal rate, because he is going in there commercially and we use him for carrying the mail.

Q. And in fact during recent years you have discontinued about sixteen services?—A. I would not know the number. I do not recall the number. I do not think it is sixteen.

Q. Not sixty, but sixteen.—A. No. I doubt that too. But if we have withdrawn a service—I have one in mind, the one to Chibougaman—

Q. I will show you the list.—A. I am not arguing the point. I do not remember.

Q. It is possible, is it not?—A. Yes.

Q. That is all right. I am satisfied with that answer and it saves a lot of time. Would it be possible to have a tabulation or a list showing what extensions and increases in frequency have been established with the T.C.A. (1) since January 1, 1940; (2) are to be established with the T.C.A. or are contemplated until December 31, 1940, the end of the present T.C.A. year; and then coming to your estimates for this Dominion fiscal year, (3) are to be established or are contemplated with the T.C.A. until March 31, 1941. I mean the services that are being talked about between the T.C.A. and the Post Office Department but which are not put into operation this year but are to be put into operation at the end of the fiscal year, of this year, and before the end of the fiscal year of the Post Office Department.

Mr. HERRING: It is very easy to answer that; the answer is, no.

The CHAIRMAN: It seems to me that Mr. Pouliot is usurping the functions of this committee. If it is the will and the wish of the committee that this examination proceed, well and good; but it is using up a lot of our time. I put it up to the committee.

Mr. GRAY: As the one responsible for the motion, I want to ask Mr. Pouliot if he intends to be very long.

Mr. POULIOT: I am very grateful to this committee. I have no words with which to express my gratefulness. I have one more question.

Mr. GRAY: One more question then.

Mr. POULIOT: I have just one more question, and I am most grateful to the committee. Would it be possible to have a copy of all the Post Office Department's reports or memoranda recommending extensions or increases in frequency of air services such as I have just mentioned?

Hon. Mr. HOWE: I do suggest that the Post Office Department are not examined by this committee. Has that really any bearing on the work of the committee?

Mr. POULIOT: As you like it.

Hon. Mr. HOWE: Isn't the place to get that when the Post Office Department's estimates are up in the house?

Mr. POULIOT: Yes. But do you wish to shut off the answer to my other question?

Hon. Mr. HOWE: Not at all.

Mr. POULIOT: I will not insist on an answer to my question. However, there was one final question I would like to ask Mr. Herring. Now, Mr. Herring, will you please tell the committee if it is to your knowledge that the estimates of the Post Office branch have been reduced this year?

Mr. HERRING: That it is to my knowledge that the estimates have been reduced—of my branch?

Mr. POULIOT: I mean, the Post Office Branch; there are two main branches in the department, there is the Postmaster's branch—

Mr. HERRING: I do not understand; do you mean, how is it operating?

Mr. MACINNIS: I am not sure that we should allow questions which relate to another department. The Postmaster General might object to information being given in this way; not that I can see any objection to it. I think Mr. Pouliot has had sufficient experience and knows that very well.

Mr. POULIOT: Very well, Mr. Chairman.

The CHAIRMAN: I think it is the general decision of the committee that we should proceed with our reference.

Mr. BLACK: There is one main figure, it is probably on the record, but I cannot find it here—there is one main figure I would like to have; that is, the amount paid by the government to the department—I mean, really, the subsidy which enables the service to operate. If the service were trebled and received two-thirds of the total earnings of a rate of 4 cents per letter, what would be the difference between that earning and the amount that is paid by the government as a subsidy from the postal department?

The CHAIRMAN: We will have to wait until our witness is back on the stand again.

Hon. Mr. HOWE: The figure we gave was \$400,000 last year. I think that question was answered. I think the figure was somewhere around \$400,000 for last year. Of course, the mail is building up. We started this only a year ago, and we expect that very shortly we will have a profit for the Post Office on the 4 cent basis, and as well a profit that will permit the Trans-Canada to lower the postal rate of 60 cents. You see, the two are working together.

The CHAIRMAN: Do you wish to proffer that question to Mr. Herring again, or are you through with it?

Mr. BLACK: I might—just a minute.

Hon. Mr. HOWE: We will get it from Mr. Herring. I think, Mr. Herring, you gave a figure. Assuming 4 cents per letter cost to T.C.A. how much is the balance between the amount paid to T.C.A. and the amount of revenue paid from the sale of postage stamps at a rate of 4 cents per postage stamp; you gave us that figure, and I think you said it was somewhere around \$400,000?

Mr. HERRING: On a basis of 4 cents a letter, and on a basis also of 50 cents—

Mr. BLACK: I am sorry, I cannot hear the witness at all.

Mr. HERRING: We estimated a deficit during the last fiscal year of \$410,952. That is to say, that was the loss throughout. That is, taking for ourselves the 2 cents as cost of handling ordinary mail we still lost approximately \$410,000.

Mr. BLACK: That 60 cents is not made up on the basis of 4 cents a letter in earnings by the postal service; that is an arbitrary figure?

Mr. HERRING: It is more or less arbitrary. The ordinary rate of postage is 3 cents, air mail postage is 6 cents so there can be no possible argument that at least we get 3 cents profit.

Mr. BLACK: Credit air service with 4 cents, or two-thirds of the total postal service cost two-thirds of the total postal earnings, then what subsidy is paid directly or indirectly to the Post Office Department to enable the service to operate? The hon. the minister stated \$400,000 odd. I would like to have that figure, if I may; that is the figure which interests me most.

Hon. Mr. HOWE: He just gave it again as \$410,000. Of course, that is allowing the Post Office for its other services 2 cents per letter, which may be too much. I fancy Mr. Herring would not argue with the committee that it is not. The Post Office assumes 2 cents per letter for performing its other services. After all, there are no rail charges in this, and we have to offset the amount of the rail charge which is an item in the usual service. On the basis on which the Post Office Department have figured it, after allowing the 4 cents per letter carried, there was still a deficit of \$410,000. I think that is a fair statement.

Mr. HARRIS: The witness was kind enough to suggest in answer to a previous question that the cost might be 35 at one stage while at another stage it might be 50 and at another stage something else. He said, my answer is as good as his. If I were occupying his position I would think perhaps I could give a better answer than that; at any rate, there should be some means of obtaining a better

answer than that. Here you have a system which gets 59·5 per cent of its revenue from the carrying of air mail. One thing that is patent on its surface is, the operation of this system is not costing 50 per cent for the carrying out of the air mail service, that is true; and the net result is that this 60 cents per flight mile is really more or less a subsidy which goes to help carry on the very important and necessary service. The witness has not got beyond 50 cents yet; he said from 35 cents to 50 cents was the lowest figure he would take. However, let us take 50 cents, putting it at the maximum; with 2,760,000 miles flown it shows \$276,000 net subsidy at 10 cents per mile, an amount which is handed over as a subsidy by the Post Office Department to this service. If you take the mean of the two figures, taking 35 cents and 50 cents, and cutting that down as low as 40 cents, then there is \$532,000 that last year was handed out by the Post Office Department to the T.C.A. for the operation of that service. If that statement is substantially correct there is a question I would like to ask the witness.

Mr. HERRING: My diffidence about quoting the exact figure for you is I think excusable and, may I say, explainable. You have different types of planes which you can use, one of these costs \$35,000 and another we will say costs \$50,000.

Mr. HARRIS: That is beside the point, you are trying to get around it. Look at the statement, gentlemen; surely, there must be some idea between 35 and 50; the record says 60, so we can say from 35 to 60; what is the 10 cents for?

Mr. HERRING: The point is this, there is a diversified traffic; it is one thing to finance a mail service, and it is another to finance an express service or a passenger service with that mail service. Of course, if it were exclusively a mail service you could get it down in detail; but where the other services are included the cost is increased.

Hon. Mr. HOWE: The difference is in the cost of the equipment. There is no plane which you could buy today for \$35,000 with which you could supply the service required. You could not buy a plane for \$40,000 or \$50,000 that would carry your mail and give you the fast service that we have today from Halifax to Vancouver. You could get a plane which would do the service, yes; but it would take 2 or 3 days where the planes we now use cover the distance in one. You are talking about something which is entirely hypothetical. I know of no planes cheaper than those we are at present using in our trans-continental service which are as suitable for the work. Furthermore, you are building up postal revenue which in a year or two may enable us to reduce the cost of carrying mail. As Mr. Herring said, in five year's time the volume of revenue may be such as to reduce the cost of your service very substantially; indeed, it might pay the entire cost of operating the Trans-Canada. How can you reconcile that with the statement that you could buy \$35,000 or \$40,000 planes and build up a mail service for less?

Mr. HARRIS: I appreciate these difficulties, looking at the situation broadly. Perhaps the minister would make this admission or this deposition, that you are actually receiving a substantial subsidy—you might as well call it a subsidy—due to the fact that you are carrying the mails. In other words, if you were not in the mail, passenger and express business you would have a tremendous deficit. Seventy per cent of your income comes from mail services.

Hon. Mr. HOWE: That is true, but are we not performing a service? If there was no mail to carry we would not have the service.

Mr. HARRIS: But seventy per cent of the income is from the mail service.

Hon. Mr. HOWE: You are discussing the first nine months during which we carried passengers. We only carried passengers for the first nine months of the year you are discussing, and you are going to see a very different picture this

year. As the years go on, the operating cost will be paid more and more by passengers and less and less by mail. You are discussing a partial year as far as the carriage of passengers goes.

I do not like the word "subsidy." You pay for a service.

Mr. HARRIS: I am looking for a better word.

Hon. Mr. HOWE: It is not a subsidy, it is payment for a service.

When they started air mail service in the United States the average cost of carrying the mail was \$2.00 per mile. They have reduced that cost. As the passenger business was built up, they reduced it. I presume the average cost today of carrying mail in the United States is thirty cents. I would not be surprised next year if we did not get the cost down to fifty cents per mile.

Mr. HARRIS: At that point, there is no provision in the Post Office estimates for that suggested ten cents; in other words, the Post Office Department is not getting the advantage of that ten cents, because your estimates call for \$4,450,000.

Hon. Mr. HOWE: They do not get it this year because we have not reduced our costs down to that point. Any reduction we make this year in operating costs will be applied to reducing the cost of carrying the mail in 1941.

Mr. HARRIS: Unless the volume of mail is doubled, the figure for the cost of carrying mail is a figure which is going to be away out in your estimates.

Hon. Mr. HOWE: Oh, no. As far as 1940 is concerned, the price for carrying mail is set at sixty cents per mile. The number of services has been decided upon and agreed to, and there is no change in 1940. In 1941 there will be a different rate for carrying mail, depending on the results of 1940. The number of services that will then be operated will be a matter for decision when the time comes.

Mr. HARRIS: Then, Mr. Chairman, I will make this concluding observation. I do not think the minister has a better word than "subsidy". There is going to be a substantial sum of money in the sixty cent rate paid over for the year 1940 to the T.C.A., and it is going to approach, as I feel it—although there is no estimate, which is one thing I criticize, and as the years go on I hope they will put their estimate in—seventy per cent of their revenue.

Hon. Mr. HOWE: I think you are wrong in several counts. I do not think it is going to be seventy per cent of the revenue, and whether it is a subsidy or not depends on the poundage of mail you carry. It is building up, and I do not think anybody can predict what it will be in future.

Mr. HARRIS: It is going to jump from about \$2,000,000 to \$4,000,000. You are going to get that \$4,000,000 into the treasury of the T.C.A. It is going to help make a nice looking balance sheet.

Hon. Mr. HOWE: They are getting a good many stamps in the form of postage and they expect that they are going to get more stamps. They show only the expenditures; the revenues have not come into the picture. The revenue goes into the Consolidated Revenue Fund. There are two sides to that picture.

Mr. HARRIS: We have a witness here from the Post Office Department, and the statement was made on the records of parliament that the Post Office Department does not make any money; in fact, it is intimated that they have lost money on the sixty cent per mile basis for the carriage of mail. Did you lose money on the sixty cent per mile basis for the carriage of mail?

Mr. HERRING: Yes. That is determined by the limited volume of mail that has so far been offered.

Mr. HARRIS: I am sorry; I cannot hear a word of what you are saying.

Mr. HERRING: The loss is determined by the limited quantity of air mail that has so far been offered. But that sixty cent rate would still apply if the volume of mail offered were doubled.

Mr. HARRIS: In your opinion, there is a substantial loss?

Mr. HERRING: At the moment, yes.

The CHAIRMAN: Is the committee through with the witness? If there are no further questions, I wish to thank you, Mr. Herring, very cordially for your appearance and the information you have given.

Shall we try to finish the Trans-Canada Air Lines before lunch?

Mr. HARRIS: We cannot possibly finish. You promised that you would go through the whole sheet and then you would go over it clause by clause and you asked us not to ask questions on the individual clauses, even though later you did ask if there were any questions.

The CHAIRMAN: We decided that we would go on with this and that there would be latitude for revised interrogation after we were through. It was being read by Mr. English, I believe.

Mr. ENGLISH:

FINANCIAL

The paid in capital of the company, which has all been raised by the issue of capital stock, is now \$3,750,000, an increase during the year of \$550,000. Of the funds thus obtained \$3,699,889 has been invested in aircraft, buildings and ground equipment. No portion of the capital has been utilized for organization, training or development expense. The balance sheet of the company at 31st December, 1939, is appended hereto.

The income account for the year, after providing for all operating costs, including depreciation and interest on invested capital, shows a deficit of \$411,656, which is somewhat under the amount of \$488,941 appropriated by Parliament. Details of the revenue and expenditure accounts are given in the accompanying schedules. The operating expenses include, in addition to the operating costs of revenue producing services, all expense incurred during the year in connection with the development of new services and the training of personnel.

Adequate depreciation reserves have been provided in respect of all property subject to depreciation. Depreciation charged to operating expenses in 1939 totalled \$557,342, and comprised over 20 per cent of the total operating costs. Full insurance coverage is carried with outside underwriters for passenger, public, and employer's liability. Provision is also made by self-insurance or with outside underwriters for loss or damage to aircraft and other company-owned property.

Mr. JACKMAN: I should like you to turn to the first part of the statement you have just read under the heading "Financial." There you say, "Of the funds thus obtained \$3,699,899 has been invested in aircraft, buildings and ground equipment. No portion of the capital has been utilized for organization, training or development expense." The assumption is that these three items have been charged against operating; is that it?

Hon. Mr. HOWE: That is right.

Mr. JACKMAN: You also say, "Full insurance coverage is carried with outside underwriters for passenger, public, and employer's liability." I suppose that is the new form of insurance, is it? The railway is concerned only with its own operation. This is a special kind of insurance inherent in airplane operation and the Trans-Canada Air Lines or the railway or the government do not see fit to carry this sort of insurance themselves. I presume you do not carry insurance.

Hon. Mr. HOWE: In the railway the risk is spread very widely. The railway has insurance in part but with outside insurance people we have special risks. For instance, the principals are insured outside. Trans-Canada is too small an operation to average the cost so it was thought wiser to insure them with outside underwriters.

Mr. JACKMAN: I suppose the field of insurance for your passengers is the main thing, public liability. I suppose there is enough experience in connection with all passenger air travel in the United States to know about where you stand. The rates are pretty definite. The experience of insurance companies is now well known, and they know just what should be charged. How long would you consider it advisable to carry insurance with outside underwriters rather than assuming it ourselves or the government and thus saving the cost which naturally goes to private companies.

Hon. Mr. HOWE: I would think we would have to have a very much larger fleet of planes before we would be justified in doing that. The crash of one plane would wipe out a very large share of the assets of the company if it happened to-day.

Mr. JACKMAN: I was looking on it from the standpoint of a private company, Trans-Canada Air Lines, which is an entity in itself. But inasmuch as it is a government-owned enterprise do you not think that it might be advisable to consider carrying that and eliminating insurance entirely. If we carried it we would save the money which the insurance companies must make out of it.

Hon. Mr. HOWE: It was gone into very thoroughly. It seemed to us that the rates that were offering were reasonable rates spread over all the industry in North America. We thought it was wise to carry everything except crash insurance with public underwriters. As a matter of fact, with regard to crash insurance we have set up our own risks in the company. If they actually crash a plane we have sums to cover that, or at least we have been accumulating funds. It is a matter of opinion. I think anyone in this chair might form a different opinion but that is the opinion I arrived at from the advice of the officers.

Mr. McCULLOCH: Carry on.

Mr. ENGLISH: There was a question asked at the last meeting in regard to the basis of estimating depreciation rates. There is a return here. Do you want it read?

Mr. HARRIS: Put it in the record.

Mr. ENGLISH:

TRANS-CANADA AIR LINES

BASIS OF DEPRECIATION RATES

	Estimated Service Life
Aircraft.. . . .	4 Yrs.
Aircraft Engines.. . . .	4000 Hrs.
Aircraft Communication Equipment.. . . .	5 Yrs.
Miscellaneous Flying Equipment.. . . .	5 "
Ground Communication Equipment.. . . .	5 "
Hangar Equipment.. . . .	10 "
Shop Equipment.. . . .	10 "
Motor Vehicles—Delivery Trucks.. . . .	5 "
Motor Vehicles—Tractors & Tank Trucks.. . .	10 "
Fuel Storage & Distribution Equipment.. . . .	10 "
Furniture, Fixtures and Office Equipment.. . .	10 "
Airport Lighting Equipment.. . . .	20 "
Miscellaneous Ground Equipment.. . . .	10 "
Hangars	Maximum 50 "

(Dependent on lease of site)

GENERAL

War Conditions

The company is performing an important function in the Dominion's war effort and war-time economy. The value of a fully-equipped national airway, with adequate means of communication and with facilities for servicing both military and civilian aircraft, has already been demonstrated.

Under the provisions of an Order in Council passed shortly after the outbreak of hostilities, trained employees may only join the armed forces with the permission of the company. A number of employees have been granted such permission, with leave of absence for the duration of the war.

It is not anticipated that the company's operations will be adversely affected by the Commonwealth Air Training Plan, which will come into full operation during 1940. Indications are that it will be possible to arrive at an understanding in regard to the use of airports and airway facilities which will be mutually satisfactory.

Measures have been taken to protect the company's property against sabotage.

Second Transcontinental Schedule

Consideration has been given to increasing the transcontinental schedule to two trips daily each way between Montreal, Toronto and Vancouver. Sufficient trained personnel will be available by the spring of 1940, and it now appears reasonably certain that the additional service will commence on or about April 1st.

Service Extensions

Present indications are that the airway facilities now under construction between Toronto and Windsor, including the terminal field at Windsor, the intermediate field at London, and the radio ranges at both points, will be completed in the late spring or early summer of 1940. Accordingly, it is planned to inaugurate a double-daily schedule between Toronto and Windsor with a stop at London, on or about July 1st.

It is further proposed to operate services between Toronto and New York and between Toronto and Buffalo. The company has obtained the necessary Canadian licences, and its applications for the required United States licences are now before the Civil Aeronautics Authority at Washington.

Trans-Atlantic Flights

Imperial Airways Limited operated eight round-trip Trans-Atlantic flights from Southampton to New York, via Foynes, Botwood and Montreal, during the months of August and September. The flying boats "Cabot" and "Caribou," the largest type of equipment yet used in this service, were employed, and all trips were successfully completed. A considerable volume of mail and express traffic developed, but no passengers were carried. Information received indicates that the service is to be resumed in the spring of 1940.

Mr. EMMERSON: How does it stand now, that last sentence?

Hon. Mr. HOWE: We have word the service will be inaugurated the beginning of next week.

Mr. ENGLISH:

Outlook for 1940

The progress achieved during the year in the development of the company's services is considered satisfactory. The prospects for 1940 appear favourable. Passenger traffic has been well maintained during the winter, and there is every

indication that it will materially increase in the spring, particularly if a second transcontinental schedule is available. The company's operating budget for 1940, which is based on the assumption that a second transcontinental schedule will be operated in the spring, and that services will be extended to Windsor, New York and Buffalo during the summer, contemplates that there will be a profit for the year, after depreciation and interest.

The change from a training and pioneering stage to a full-time scheduled operation presented problems which were exacting and at times difficult, and the Directors desire to acknowledge the loyal and efficient service of the company's personnel.

The cordial relations established with the officers and field staffs of the Department of Transport and the Post Office Department continued throughout the year, and acknowledgment is again made of the assistance and co-operation received.

For the Directors,

S. J. HUNGERFORD,
President.

Montreal, 19th, March, 1940.

The CHAIRMAN: Gentlemen, I think we should rise now. It is 1 o'clock. Shall we convene at four? What is your wish?

Mr. HARRIS: There are some very important resolutions in the house this afternoon, Mr. Chairman.

The CHAIRMAN: Well, it is up to the committee. We cannot possibly conclude to-day, more particularly since our minister will be away this afternoon and there is a good deal of consideration to be given to airways, I presume.

Mr. HARRIS: What is the minister's wish? That is the important thing.

The CHAIRMAN: So far as the consideration of the T.C.A. is concerned we would like it held over until he returns on Thursday, and I think probably we might quite readily agree to that arrangement.

Mr. GRAY: Surely.

Hon. Mr. HOWE: There is no reason why you should not go on with the railway. I have to leave for New York this afternoon.

Mr. GRAY: Could not we go on with something to-morrow?

The CHAIRMAN: We have only the budget and a reconsideration of the railway.

Mr. GRAY: Would it suit the officials better to come back?

Mr. HUNGERFORD: We would like to get through.

Mr. GRAY: Can we carry on to-morrow?

The CHAIRMAN: They will have to wait until Thursday.

Mr. GRAY: Why not come back to-morrow?

The CHAIRMAN: That is all right.

Mr. HARRIS: To-morrow is our caucus day.

Mr. McCULLOCH: Why not meet this afternoon?

The CHAIRMAN: We shall hold everything until Thursday.

The committee adjourned at 1 o'clock to meet on Thursday, July 11, at 11 o'clock.

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Standing Committee, 1940

SESSION 1940

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

TUESDAY, JULY 16, 1940

WITNESSES:

- Mr. S. J. Hungerford, President, Canadian National Railways.
- Mr. R. C. Vaughan, Vice-President, Canadian National Railways.
- Mr. T. H. Cooper, Comptroller, Canadian National Railways.
- Mr. W. M. Armstrong, Assistant Chief of Research and Development, Canadian National Railways.
- Mr. O. A. Matthews, Auditor, George Touche & Co.
- Mr. D. B. Colyer, Vice-President, Trans-Canada Air Lines.
- Mr. W. F. English, Assistant to Vice-President, Trans-Canada Air Lines.

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1940



REPORTS TO THE HOUSE

July 18, 1940

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as its

SECOND REPORT

Your Committee has considered the following Items of the Estimates referred to the Committee on June 28, and approves of same viz:

445—Maritime Freight Rates Act, Canadian National Railways, Eastern Lines	\$ 2,000,000
446—Maritime Freight Rates Act, Railways other than Canadian National Railways	800,000
458—Canadian National (West Indies) Steamships Limited, capital advanced	21,000
459—Canadian National Railway Company.....	15,000,000
460—Prince Edward Island Car Ferry and Terminals.....	327,000

All of which is respectfully submitted.

J. P. HOWDEN,
Chairman.

MINUTES OF PROCEEDINGS

11.00 a.m.,

July 16, 1940.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met this day at 11.00 o'clock a.m. Mr. J. P. Howden, the Chairman, presided.

Members present were: Messrs. Black (*Cumberland*), Bradette, Donnelly, Emmerson, Ferland, Hanson (*Skeena*), Harris (*Danforth*), Howden, Howe, Jackman, Lockhart, MacInnis, McCulloch, Sanderson, and Sissons.—15.

In attendance were: The Hon. P. J. A. Cardin, Minister of Public Works and Transport; Mr. S. J. Hungerford, President, Canadian National Railways; Mr. R. C. Vaughan, Vice-President, Canadian National Railways; Mr. T. H. Cooper, Comptroller, Mr. W. M. Armstrong, Assistant Chief of Research and Development; Col. V. I. Smart, Deputy Minister of Transport; Mr. A. V. Franklin, Railway Auditor, Department of Transport; Mr. O. A. Matthews, representing George A. Touche & Co., Auditors; Mr. D. B. Colyer, Vice-President, Trans-Canada Air Lines; and Mr. W. F. English, Assistant to the Vice-President, Trans-Canada Air Lines.

A statement showing the capital account of each of the Canadian National Railways hotels for the last five years was ordered to be inserted in the minutes of evidence.

The report of the Trans-Canada Air Lines was further considered.

The Budget of the Trans-Canada Air Lines for 1940 was ordered to be filed with the Committee.

On motion of Mr. Harris it was

Ordered,—That in future reports of the Trans-Canada Air Lines should show the number of non-revenue passengers.

On motion of Mr. Hanson, seconded by Mr. McCulloch, the report of the Trans-Canada Air Lines was adopted on division.

Moved by Mr. McCulloch, seconded by Mr. MacInnis, that the Committee meet again at 4.00 p.m. this day.—Carried.

Moved by Mr. Harris, seconded by Mr. MacInnis, that the Budget of the Canadian National Railways and the Canadian National (West Indies) Steamships, Limited, be now considered. The motion carried and the said Budget was taken under consideration.

On motion of Mr. Sanderson the Committee adjourned.

4.00 p.m.

The Committee met again at 4.00 p.m. Mr. J. P. Howden, the Chairman, presided.

Members present were: Messrs. Black (*Cumberland*), Bradette, Donnelly, Emmerson, Ferland, Hanson (*Skeena*), Harris (*Danforth*), Howden, Howe, Jackman, MacInnis, McCulloch, Sanderson, and Sissons.—14.

The Committee resumed consideration of the Budget of the Canadian National Railways. During discussion of the item of \$20,000,000, net income deficit, Mr. Harris moved, seconded by Mr. Black,—

That the management, in co-operation with the Minister of Transport, in giving consideration to the views of this Committee, be asked to reduce the estimate referred to by the order to a lower figure in view of six months' experience.

This motion was negatived on the following division: *Yeas*: Messrs. Black (*Cumberland*), Harris, and Jackman (3). *Nays*: Messrs. Bradette, Donnelly, Emmerson, Ferland, Hanson (*Skeena*), McCulloch, Sanderson, and Sissons (8).

On motion of Mr. McCulloch the Committee adjourned to meet again at 8.00 p.m. this night.

The Committee met again at 8.00 o'clock p.m. Mr. J. P. Howden, the Chairman, presided.

Members present were: Messrs. Black (*Cumberland*), Bradette, Donnelly, Emmerson, Ferland, Hansell, Hanson (*Skeena*), Harris (*Danforth*), Howden, Howe, Jackman, MacInnis, McCulloch, Sanderson, and Sissons.—15.

The Committee resumed consideration of the Budget of the Canadian National Railways and the Canadian National (West Indies) Steamships, Limited.

On motion of Mr. Hanson, seconded by Mr. McCulloch, the said Budget was adopted on division.

On motion of Mr. Emmerson, seconded by Mr. McCulloch, the following Reports were adopted on division:—

George A. Touche and Company;
Canadian National Railways;
Canadian National (West Indies) Steamships, Limited; and the
Canadian National Securities Trust.

The following items of the Estimates were approved:—

445—Maritime Freight Rates Act, Canadian National Railways Eastern Lines.....	\$ 2,000,000
446—Maritime Freight Rates Act, Railways other than Canadian National Railways.....	800,000
458—Canadian National (West Indies) Steamships, Limited, capital advanced.....	21,000
459—Canadian National Railway Company.....	15,000,000
460—Prince Edward Island Car Ferry and Terminals.....	327,000

The Chairman, on behalf of the Committee, thanked the officials in attendance for their courteous treatment of the members of the Committee. Mr. Black expressed appreciation of the work of the officials, particularly Mr. Hungerford, and the Board of the Canadian National Railways. He also expressed his appreciation of the knowledge, ability and courtesy of the retiring Minister of Transport (The Honourable Mr. Howe).

On motion of Mr. Hanson, the Committee adjourned at 9.15 p.m. to meet again at the call of the Chair.

J. P. DOYLE,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

July 16, 1940.

The Standing Committee on Railways and Shipping met at 11 a.m. The Chairman, Mr. J. P. Howden, presided.

The CHAIRMAN: Order. Gentlemen, when the committee arose we were considering Trans-Canada Air Lines. As they are of special interest to the hon. Mr. Howe and as he has made a request that they be not proceeded with until he is able to be present in the committee, and as he has not yet arrived this morning, I suggest that we go on with something else.

Mr. HARRIS: Mr. Chairman, before you do that, was there not some information to be tabled the first thing this morning. I understood that someone was going to bring in a report showing the capital account for each of the hotels for the last five years and showing how the capital account had progressed from year to year; or, what were the amounts of capital invested in each hotel.

The CHAIRMAN: If the committee wants we can go ahead with that.

Mr. HARRIS: I do not want to interfere with your routine, but I thought that this information should be tabled as the first order of business.

The CHAIRMAN: Very well, if that is the desire of the committee.

Mr. HARRIS: Are there enough copies of this report for all the members?

Mr. ARMSTRONG: No, sir. There is one copy for you, and we have a copy here for the record.

The CHAIRMAN: Do you wish to have this report read, Mr. Harris?

Mr. HARRIS: I am in the hands of the committee, Mr. Chairman. I expect that the only way we can get it on the record is to have it read and that would be wasting a lot of time. Perhaps it could be filed and later incorporated into the record?

The CHAIRMAN: Yes, I think it can be taken as read.

INVESTMENT IN HOTELS OPERATED BY CANADIAN NATIONAL RAILWAYS
JANUARY 1, 1935, TO DECEMBER 31, 1939

Name of hotel	Location	Investment at Jan. 1, 1935	1935	Net annual 1936	capital 1937	expenditures 1938	1939	Investment at Dec. 31, 1939
Canadian National—Charlottetown, P.E.I.	...	\$ 854,171 78	\$ 1,061 58	\$ 235 00	\$ 1,240 38	\$ 870 71	\$ 3,073 85	\$ 860,653 30
Pictou Lodge—Pictou, N.S.	...	199,344 56	559 17	....	447 52	....	....	199,456 21
Nova Scotian—Halifax, N.S.	...	2,442,553 09	1,359 50	985 15	5,566 76	718 80	5,660 94	2,454,125 24
Chateau Laurier—Ottawa, Ont.	...	8,653,158 25	7,038 61	17,557 40	6,155 62	3,475 02	10,465 55	8,683,773 23
Prince Arthur—Port Arthur, Ont.	...	1,180,516 01	1,844 80	1,340 58	1,803 59	560 54	4,800 98	1,190,866 50
Minaki Lodge—Minaki, Ont.	...	1,088,496 46	635 26	1,006 65	1,709 30	4,244 87	1,342 49	1,095,421 73
Fort Garry—Winnipeg, Man.	...	2,892,056 91	1,869 39	7,677 75	2,663 45	2,667 08	4,971 81	2,911,906 39
Prince Edward—Brandon, Man.	...	518,954 64	586 54	499 99	3,738 85	3,016 16	159 88	525,782 98
Macdonald—Edmonton, Alta.	...	2,228,376 33	18,524 52	14,274 04	3,728 45	7 064 02	15,622 74	2,287,590 10
Jasper Park Lodge—Jasper, Alta.	...	2,589,508 11	8,782 63	6,070 85	22,708 46	33,355 27	23,035 65	2,683,460 97
Bessborough—Saskatoon, Sask.	...	3,076,953 56	*454,586 43	21,852 38	14,191 69	124 44	410 75	3,567,048 87
Total	...	\$25,724,089 70	\$478,879 13	\$69,486 49	\$63,059 03	\$55,848 03	\$68,723 14	\$26,460,085 52

Figures in italics represent net retirements.
*Operation commenced December 10, 1935.

Mr. HARRIS: I notice when looking at the report that while we asked that the total amounts be inserted they do not appear on the face of the report.

Mr. ARMSTRONG: We will have the totals put on before it is entered in the record.

Mr. HUNGERFORD: We can do that, or, if you like, we can furnish additional copies for each member of the committee later.

The CHAIRMAN: I think it will be all right to have it inserted in the record.

And now the hon. Mr. Howe is here. He is a very busy man, so perhaps we should proceed with the report on the airways. In the absence of any other suggestions we will continue from where we left off last day. We have got down as far as the end of the signed report. Where do we go from there; to the balance sheet? The next item will be consideration of the balance sheet. Is it the wish of the committee that this balance sheet should be read, or shall we merely scrutinize it in passing?

Mr. BLACK: There are \$5,000,000 of adjustments, and of this \$3,750,000 has been placed to the credit of the Trans-Canada Air Lines in cash; is that correct?

Hon. Mr. HOWE: Yes, in cash.

Mr. BLACK: How is that money provided; by the Canadian National Railways, or by the government?

Mr. HUNGERFORD: The Canadian National Railways puts up the money and then subscribes for the stock of Trans-Canada Air Lines.

Mr. BLACK: When the Canadian National Railways have a deficit where do they get the money from?

Hon. Mr. HOWE: They get it from the Capital Appropriations Bill, from parliament. An amount is voted to the railways for capital services each year. The money is subscribed by the government but through the Canadian National Railways.

Mr. BLACK: The appropriations by parliament come under two headings; the appropriation for capital expenditures, and the appropriation to pay these deficits; is that correct?

Hon. Mr. HOWE: That is right.

Mr. BLACK: What was the total appropriation for capital expenditure last year? I presume that is set out in the financial statement of the Canadian National Railways?

Mr. HUNGERFORD: Mr. Cooper can give you the figure for last year.

Mr. COOPER: The capital requirements of the Canadian National Railways under the 1939 budget were \$4,279,776.68; in addition, \$8,162,745 was required for the retirement of capital debt.

Mr. BLACK: That would be under three headings then; one would be an appropriation to meet maturing debts and another appropriation would be for capital expenditures, and a third would be to cover the deficit.

Hon. Mr. HOWE: I might say there are two headings there. The one, capital appropriation, is merely a loan by the government. It is a suspense account. The government advances money from time to time as required to pay maturing indebtedness or to meet capital expenditures; but later that money is returned to the government by the railway through the sale of railway securities. The Canadian National Railway issues its own securities, of course, so that the capital expenditure does not involve a vote of parliament; it is simply an authorization by parliament, a temporary financing in the meantime between the time the money is required and the time the railway issues its own securities.

Mr. JACKMAN: Are you referring to the equipment trust certificates?

Hon. Mr. HOWE: No, capital expenditures direct.

Mr. JACKMAN: In other words, the railway simply issues its own bonds to the government.

Hon. Mr. HOWE: No, not to the government, to the public.

Mr. JACKMAN: That is, in the form of guaranteed bonds.

Hon. Mr. HOWE: Railway bonds, sold to the public; guaranteed, yes. So, there are two types of capital financing by the government: one is the deficit, which is definitely paid up and is a definite transaction; the deficit is not capitalized; any capital expenditure is capitalized, funded by the Canadian National Railway, and the money repaid to the government.

Mr. BLACK: So that a provision is made for this capital expenditure. I presume there are items designating what services, what purposes, they have been appropriated for?

Hon. Mr. HOWE: That is in the railway budget, yes.

Mr. BLACK: How much was that? Where is that statement for 1939 in the Canadian National Railways' auditors' report?

Mr. COOPER: On page 5 we show the capital expenditure during the year amounting to \$9,863,847; and on page 6 we show the retirement of other capital obligations amounting to \$8,162,745.

Mr. BLACK: Where do we find the entry in which this capital expenditure on Trans-Canada Air Lines appears?

Hon. Mr. HOWE: That would be partly of 1938, of course. Page 20, at the bottom of the page of the annual report of the Canadian National Railways, shows \$550,000 of a loan for the account of Trans-Canada Air Lines. That is money loaned to the Trans-Canada Air Lines during the year 1939. The balance was loaned in earlier years, I presume.

Mr. BLACK: I do not yet understand. Mr. Chairman, how this money is made available. If I understand, the Minister the Railway is given authority to make this expenditure for this purpose out of capital monies provided; how?

Hon. Mr. HOWE: Shall I read from the Trans-Canada Air Lines Act?

ISSUE OF SECURITIES BY CANADIAN NATIONAL RAILWAY COMPANY

12. (1) Subject to the provisions of this Act, the Canadian National Railway Company may issue notes, obligations, bonds and other securities (hereinafter in this section called "securities") not exceeding the sum of five million dollars for the purpose of acquiring the capital stock of the Corporation, and the Governor in Council may authorize the guarantee of the principal and interest of such securities on behalf of His Majesty.

(2) The Governor in Council may, subject to the provisions of this Act, approve or decide,—

(a) the kind of securities to be issued and guaranteed, and the form and terms thereof;

(b) the form and manner of the guarantee or guarantees;

(c) the time, manner and amount of the issue or issues;

(d) the terms and conditions of any sale, pledge or other disposition of the securities;

(e) the securing, if deemed desirable by the Governor in Council, of the securities by mortgage, deed of trust or other instrument, and the form and terms of any such instrument and the trustee or trustees thereof.

(3) The guarantee or guarantees may be signed on behalf of His Majesty by the Minister of Finance or by such other person as the Governor in Council may from time to time designate, and such signature shall be conclusive evidence for all purposes of the validity of such guarantee and that the provisions of this Act have been complied with.

(4) To enable the Canadian National Railway Company to proceed forthwith to acquire the capital stock of the Corporation, the Governor in Council, pending the issue, sale, pledge or other disposition of the aforesaid securities, may authorize advances to be made to the said Company from the Consolidated Revenue Fund, such advances to be reimbursed to His Majesty by the said Company from the proceeds of the sale, pledge or other disposition of such securities.

That is from the Trans-Canada Air Lines Act.

The CHAIRMAN: If you are through with that report we will proceed to page 12, Income Account.

Mr. HARRIS: Just before you proceed to page 12, now that the minister is here, the auditors for the Canadian National Railway system are the same auditors as for the Trans-Canada Air Lines. The auditors, according to their extra statement with this document here, "Report on Accounts", made a very limited audit, but among other things they intimated that they have made a report in the form of a memorandum to the board of directors dealing with operative and technical equipment retirement and other internal methods, and this was dispatched to the Minister of Transport. Under the heading of other internal matters, or any other heading that applies, are there any observations in the memorandum that have to do with Trans-Canada Air Lines? Perhaps the minister would be good enough to tell us. We have not the advantage of that memorandum before us.

Hon. Mr. HOWE: I am informed by my deputy that there is nothing in that memorandum relating to Trans-Canada Air Lines.

Mr. HARRIS: I just wanted to be clear on that as we go along.

The CHAIRMAN: On page 12, is there any comment?

Mr. HARRIS: Mr. Chairman, I must admit that this increase in revenue anticipated for this year is based on the 60 cents per flight mile from the \$1,632,-875 of last year up to the estimate which we find in our estimates. I think the figure was \$4,400,000 odd. The minister's deposition at the last meeting was that we had indicated that the percentage relationship of the total income account which last year was 69.5 per cent of all revenue received by the T.C.A. came from the Post Office Department. That condition would not obtain for the year that we are in. Could the minister give us an idea of how much revenue he anticipates will come from the \$4,400,000 of the Post Office Department's estimate and the relationship that will have to the total income for this coming year?

Hon. Mr. HOWE: The total revenue from mail for this year we estimate at \$3,177,000; but, as a matter of fact, that will run less than that because we have not opened new services as soon as the budget anticipated. The budget was made up, of course, at the end of last year.

Mr. HARRIS: Is that based on 60 cents?

Hon. Mr. HOWE: Yes, that is on 60 cents. It will be less than \$3,177,000, perhaps less than \$3,000,000; and at the present rate the earnings from passenger traffic should be about \$1,800,000.

Mr. HARRIS: I just do not understand that last passenger reference, Mr. Chairman.

Hon. Mr. HOWE: Earnings from passengers for the current year should run about \$1,800,000.

Mr. HARRIS: Earnings from passengers?

Hon. Mr. HOWE: The actual earnings from passenger traffic.

Mr. HARRIS: From passenger traffic. Oh! Mr. Chairman, of the \$3,177,000 how much of that will be a loss to the Post Office Department. Just to make myself more clear; the minister was going to find a better word than the one I used, I called it "differential" subsidy from the Post Office Department to the T.C.A.; but I am not complaining about it, I am not criticizing that subsidy; but the point, Mr. Chairman, is we want to know how much of the Post Office Department money is being used to assist, or, as I say, to subsidize the T.C.A.; is there any way of determining that?

Hon. Mr. HOWE: You heard from Mr. Herring of the difficulty of determining what is payable to the T.C.A. The Post Office Department are willing to authorize 4 cents out of every 6 cent stamp as being payable to the T.C.A. keeping the other 2 cents for themselves for pick up and distribution services.

Mr. HARRIS: I appreciate that.

Hon. Mr. HOWE: If 4 cents is the correct figure—of course, there again we cannot tell if it is, or the extent to which this new service is going to swell the volume of stamps sold; but the amount which we discussed when the budget was brought down in the finance meeting was about \$800,000.

Mr. HARRIS: Well then, Mr. Chairman, the deficit of the Post Office Department was set at from 35 cents to 50 cents, but at no time did they admit the 60 cents which is the rate which applies, and which is the contract as I understand it between the T.C.A. and the Post Office Department—now, is there any way of getting closer to the actual figure than that? He said that my guess was as good as his is because the gentleman who made the deposition is charged with the responsibility and I am not. I did not appreciate that kind of an answer and I do not appreciate it yet. I am not through with the question. We ought to get somewhere nearer than a guess of 35 cents to 50 cents when the actual contract is 60 cents.

Hon. Mr. HOWE: Mr. Herring in that statement referred to a theoretical plane exactly large enough to carry the mail and nothing more. He said he thought he could supply that for somewhere between 35 cents and 50 cents. But the fact of the matter is that there is no such plane built that would maintain the present schedule but would be only large enough to carry the mail. I think it is very bad practice to theorize about a plane that does not exist. As a matter of fact, the rate of 60 cents a mile was struck as a rate that might possibly be achieved in the first year or two of operation. As a matter of fact we did not reach it last year. We expect to better it this year. Next year whatever we better it by this year will apply to reducing the rate, and we will very shortly get the actual rate at which this service will be able to carry the mail. We expect it to be a declining rate as years go by, and as the passenger traffic becomes a larger factor in revenue.

Mr. HARRIS: In the meantime the contract at 60 cents does not expire until the end of this year?

Hon. Mr. HOWE: That is right.

Mr. HARRIS: So, Mr. Chairman, I think the minister will agree that out of the total revenue for the calendar year 1940 there would be about \$800,000 from the Post Office Department which would be over and above the actual cost of the carrying of the mail, for the provision of a mail service.

Hon. Mr. HOWE: On the other hand we expect to make a profit out of the Trans-Canada of somewhere between \$300,000 and \$500,000; so the net loss will not be so large.

Mr. HARRIS: Well, in answer to my enquiry as to what portion of income will be received from mail, what percentage, about; it will be well over 50 per cent, Mr. Chairman, will it not?

Hon. Mr. HOWE: Yes.

Mr. HARRIS: Would it approach last year's figure of 69.5 per cent?

Hon. Mr. HOWE: I do not think so. That was temporary.

Mr. HARRIS: I am not criticizing. I know all the difficulty that we have in budgeting for a year; but this is only an historical account of what happened for the 12 months ended the 31st of December, 1939. There is no budget along side of it.

Mr. BLACK: There must be a budget for the current year, is there not?

Hon. Mr. HOWE: I have the budget in front of me. It is drawn up, as I say, with certain premises in mind; that is, we anticipated opening certain services at certain dates, and we have not got to that. Therefore, the budget is a bit out of date now.

Our passenger business is very much better than we anticipated in the budget. For what it is worth, I have the budget that we received last December and on which we based our operations for this year. I would be glad to place it before the committee, on the understanding that it is rather out of date now, due to the fact that certain services have not been opened as yet. As a matter of fact, we opened the Windsor-Montreal service yesterday for mail only, I believe.

The CHAIRMAN: Is it the wish of the committee that the budget be placed before the committee?

Mr. BLACK: I think it should be put on the record, Mr. Chairman, with a notation as to changes in the situation at the present time as they apply to the respective estimates.

The CHAIRMAN: It is understood that it will require some preparation, but, if it is the wish of the committee, the budget will be submitted.

Hon. Mr. HOWE: I will be glad to have this brought up to date and filed with the committee.

The CHAIRMAN: Is there any further comment with respect to this report?

Mr. BRADETTE: In connection with the item "Passenger Service," as this is subsidized by the federal treasury, I should like to know if the Trans-Canada Air Lines are doing all they can to get as much passenger traffic as possible. The reason I ask that question is that in northern Ontario we have been told time and time again that there was no space in some of the aeroplanes for passengers going westwards. I know it has happened several times. We were told on several occasions, not officially but through the newspapers, local and general, that they were going to have feeder lines. I mention this fact for the reason that we have no connection between the east and west from Cochrane to Winnipeg on account of the closing of a section of the transcontinental railway. The people who go westward by rail have to go via North Bay, a roundabout way, which creates a throwback of about six hundred miles, and the people have been inclined to travel very extensively, or would be, by aeroplane, if they could get the service.

We have an emergency field at Porquis Junction, and they have been landing there for the last two years on account of a bad situation in Kapuskasing. It is almost impossible for the people from Kirkland Lake and the Rouyn section of northern Quebec to use Trans-Canada Air Lines at the present time. I should like to know if it is true that on several occasions they could not stop in northern Ontario, in my section, for passengers?

Hon. Mr. HOWE: Of course, the line is crowded to capacity. The difficulty you have of getting a seat in northern Ontario is not much worse than we have in getting a seat in Ottawa.

Mr. BRADETTE: But in Ottawa you can go directly to Winnipeg and we cannot do that from our section of the country; we have to swing back about six hundred miles to go west by rail.

Hon. Mr. HOWE: But, as you know, our services have been greatly curtailed by the war. If it had not been for the war I think we would have had more equipment and I think we would have been considering feeder lines to pick up passengers in between. As things are now we have not allowed any further capital expenditures to be made on the line this year, and we are not in a position to encourage additional services.

Mr. BRADETTE: As it is now you are really overloaded?

Hon. Mr. HOWE: Yes.

Mr. BRADETTE: You have not got the space to handle more traffic?

Hon. Mr. HOWE: We have not the equipment to do it.

Mr. MACINNIS: Who has the authority to establish passenger and express rates?

Hon. Mr. HOWE: They are set on a competitive basis. The six cents a mile basis is standard all over the continent. Our rate for the service from Montreal to Vancouver is competitive with the charges from New York to Seattle. It is just a competitive rate; that is what the Act calls for—competitive with other services.

Mr. MACINNIS: Does the transport commission authorize the rate?

Hon. Mr. HOWE: Yes, they are approved by the Board of Transport Commissioners.

The CHAIRMAN: Gentlemen, we have considered a number of reports. We might adopt these reports, if we are through with them. We have gone over the report covering the Canadian National Railway system.

Mr. BLACK: I should like to ask the minister a question, Mr. Chairman, in regard to the new service to which he has referred, between Montreal and Windsor. Is the same type of machine authorized on that service as on the regular transcontinental route?

Hon. Mr. HOWE: Yes; we have only one type of plane.

Mr. BLACK: I should like to ask the minister why Nova Scotia is discriminated against and have not the advantage of a service at least similar to the one that is being put into effect between Montreal and Windsor.

Hon. Mr. HOWE: The reason is that we cannot take these planes into the type of airports you have along the Atlantic seaboard.

Mr. BLACK: What about the field at Stanley; it is only a short distance out of Halifax, not much farther than the distance from some of these airports to centres of population in New York or Montreal.

Hon. Mr. HOWE: Would you suggest making the terminus of the Trans-Canada Air Lines at Stanley?

Mr. BLACK: I would say, rather than ignore Nova Scotia,—it is a temporary expedient,—they should use Stanley field rather than go on with the service they are now getting. There is some feeling in Nova Scotia that they have been discriminated against. I do not wish to be unreasonable, but I think the minister gave an undertaking that the Atlantic terminus would be at Halifax or Dartmouth. I do not want to be too impatient, but I do not want to feel that they are being overlooked and slighted.

Hon. Mr. HOWE: The Dartmouth field is used exclusively for coast defence. We had arranged a radio beam to work with the Dartmouth field, and we were always prepared to use that field for passenger service. We were told at the outbreak of war that that field was required exclusively for the defence of the east coast. The same applies to Sydney; the same applies to Yarmouth. In

time of war, we do not wish to intrude on that. As a matter of fact, the two-engine Beechcraft planes used down there are very comfortable passenger planes, just as good for that service as the Trans-Canada planes.

Mr. BLACK: I assume the field at Dartmouth will always be controlled as a military field, will it?

Hon. Mr. HOWE: We had arranged before the war to use it for Trans-Canada as well. Naturally, that arrangement was superseded when war broke out. In peace time I have no reason to think we should not use the Dartmouth field.

Mr. BLACK: The city of Halifax has expended more than \$200,000 on their air field. It was one of the first cities in Canada which made such a large expenditure for such a purpose.

Hon. Mr. HOWE: You cannot remove geographical conditions. It happens to be tucked away behind Citadel Hill, surrounded by tall buildings and by houses, and you just can't land there; that is all. I tried it once and got the fright of my life.

Mr. BLACK: That is unfortunate. On the other hand, they located the field after having it approved by the only authority that was in existence at that time.

Hon. Mr. HOWE: It is unfortunate but we cannot change it now, as I see it.

Mr. BLACK: Is it possible to use Stanley field? It is only about twenty-five or thirty miles out of Halifax.

Hon. Mr. HOWE: If you want to take the responsibility for it, I would say it is possible, but I do not think it would please the people of Halifax. They have a very comfortable service from the city of Halifax to the end of the Trans-Canada; I think they would resent any change for the worse there.

Mr. BLACK: The minister thinks that Halifax and Nova Scotia should be satisfied with the present service?

Hon. Mr. HOWE: For the moment, yes.

Mr. BLACK: With the expectation or understanding that the Atlantic terminus will eventually be in Nova Scotia?

Hon. Mr. HOWE: I should say with the hope.

Mr. HARRIS: In connection with page 12, could we have the non-revenue passengers that were carried? You will notice that under "Statistical Data" you have a memorandum of the revenue passengers carried—21,569. How many non-revenue passengers were carried?

Hon. Mr. HOWE: We did last year as a matter of advertising—

Mr. HARRIS: Excepting the initial period. I except that.

Hon. Mr. HOWE: The only non-revenue passengers that can travel are employees of the line travelling on business over the line when there is a vacant seat. If there is a revenue passenger offering, the non-revenue passenger cannot ride.

Mr. HARRIS: Have you the figures, Mr. Chairman, for the non-revenue passengers carried?

Mr. COLYER: We do not have them here.

Mr. HARRIS: Could we have them in future reports, Mr. Chairman?

The CHAIRMAN: I do not think it was considered. If you demand anything in the way of a report, we will obtain it.

Mr. HARRIS: If you have the number of revenue passengers carried under statistical data, surely we could have the number of non-revenue passengers carried. Let me put it to you this way, Mr. Chairman: One of the features of our whole railway system that bears down very heavily on it and to which great

expense attaches is the carrying of deadheads. You and I ride free; in my judgment we have no right to ride free; we should pay our way. We are not the only ones; there are thousands and thousands of people in Canada riding free on our railroads. Pensioners and widows of former railway men all ride on passes—all by agreement, I quite admit. In future statements of the Trans-Canada Air Lines I move, if necessary, that the reports reveal the number of non-revenue passengers and the miles flown.

The CHAIRMAN: In subsequent statements?

Mr. HARRIS: Yes.

The CHAIRMAN: You will not require it for this inquiry?

Mr. HARRIS: I am asking for it but it does not seem to be available. This is perhaps the initial period, 1939. I am not worrying about the members of parliament; I have made my deposition. No matter what they travel on they should pay the full fare, the same as any other citizen. I am speaking of what has crept into the railway system.

The CHAIRMAN: The minister has indicated that the only non-revenue passengers are employees of the airways travelling on business.

Mr. HARRIS: That can be set up. But there are others.

Mr. COLYER: I can provide the complete information on that.

The CHAIRMAN: Mr. Colyer offers to give the information now, if you would like to have it.

Mr. HARRIS: It would be just as well to have it on the record.

Mr. BRADETTE: Are you including the taking away of passes of members of parliament?

Mr. HARRIS: I have made myself abundantly clear as far as these deadheads are concerned. I think we can dismiss the matter and get on with the business. I would not ask that it be read into the record, just put it in.

The CHAIRMAN: Does Mr. Harris desire to have this information filed, or does he wish it for subsequent reports?

Mr. HARRIS: For this report.

The CHAIRMAN: Now.

Mr. HARRIS: Yes.

Mr. COLYER: The pass regulations governing Trans-Canada Air Lines are approved by the Board of Transport Commissioners. They permit the issuance of passes to certain individuals of the company. All these passes I am speaking of are for seats that are not reserved or sold to paying passengers—company employees travelling on business of the company; Department of Transport airways employees travelling on business of the airways in connection with radio ranges, airports, etc.; Post Office Department officials travelling on business of the airmail service. Each company employee of Trans-Canada Air Lines is given one annual pass for himself over the line, plus one pass for a dependent member of his family.

I believe that covers all the passes that are authorized by the Board of Transport Commissioners, except for short courtesy flights around the airport in connection with the development of the passenger business.

The CHAIRMAN: It might be as well to clarify the request for the next report, as to whether it is a statement of the advantage that has been taken of passes, or whether it is just such a statement as we have had at the present time, that is, to whom the courtesy is extended.

Mr. HARRIS: The present statement is just a statement of policy or a statement of what is laid down by the transport commission. That does not give us the information. In your report you have shown the number of revenue passengers carried. Let us have the number of non-revenue passengers carried, and

if the administration of the Trans-Canada Air Lines wants to sub-divide that into two items, one the operation of the business itself and the other complimentary business, that would be all right. I would be quite happy to see it subdivided. I certainly do not want to interfere with the business of operating the Trans-Canada Air Lines.

Mr. COLYER: I can submit a complete report.

Mr. HARRIS: When you do, give the number of deputy ministers who ride free on the line as well, whether they are on official trips or some other sort of trips.

The CHAIRMAN: Are you through with this report?

Mr. JACKMAN: Do I understand that the rates for passengers are fixed by statute, or are they left to the management?

Hon. Mr. HOWE: They are left to the management subject to the ruling of the Board of Transport Commissioners. They are under the jurisdiction of the Board of Transport Commissioners, but they are fixed on a competitive basis with parallel lines in the south.

Mr. JACKMAN: Also, I suppose, on a competitive basis with the railways?

Hon. Mr. HOWE: No.

Mr. JACKMAN: It does not cost very much more, I understand, to come from Toronto to Ottawa by air line than it does by railway.

Hon. Mr. HOWE: Well, you add on the extras. The basic rate on the railway is three cents a mile; the basic airline rate is six cents. On the air line there is no birth to buy and no meals to buy, or anything of that kind.

Mr. JACKMAN: If it were thought that the passenger rate might be boosted, is there any difficulty at all in increasing the rates quickly, or does the management have to go before the Board of Transport Commissioners?

Hon. Mr. HOWE: It would have to go before the Board of Transport Commissioners and give thirty days' notice.

Mr. JACKMAN: It seems to me that there are many people who travel from Toronto to Ottawa and elsewhere who could just as easily travel by the railway, that is, people whose time is not so valuable. Of course, you may want that business in order to increase the percentage of occupancy. On the other hand, you may want to release some of your planes for other purposes or not to expand the air service on account of military demands for planes. It seems to me the rates are very cheap and consequently are attracting many people who could comfortably travel by railway service.

Hon. Mr. HOWE: Our rates are competitive with other rates charged. I do not think we could put ourselves in the position where our railway rates and boat rates were not pretty well competitive with those in the south.

Mr. JACKMAN: Of course, while they are competitive with rates to the south, the American Air Lines are in most cases, excepting the transcontinental, competitive because they do not compete between the same points.

Hon. Mr. HOWE: That is true on the shorter runs.

Mr. JACKMAN: Do you not think in many cases the rates could be increased without any substantial loss in desired traffic?

Mr. COLYER: We are competitive with the lines in the States. We bring passengers from New York going out to the west coast; we bring passengers from the west coast who are going to New York, and there is a certain amount of competition in connection with the business there. You will find that our rates on the average are slightly higher than the rates in the States, generally speaking. Our rate is six cents. Some of the lines in the United States have cut that. We do have cases where the air passenger fare between two points is equal to the railroad fare. For example, from Lethbridge to Vancouver, where the railroad

takes a long way around to get there, our charge is about seven cents per mile because we do not undercut the rail charge in any instance. We arbitrarily raised the fare there to more than the six cent rate between those particular points.

The fare from Edmonton to Winnipeg is very substantially higher than the rail fare, because the railway line follows a more or less diagonal line, and we go straight south to Lethbridge and make a right angle going into Winnipeg.

I am afraid that if the Trans-Canada fares were materially raised it would reflect directly on our revenue.

Mr. MACINNIS: Would it be possible to get the percentage of revenue passengers who are on government business and whose fares have been paid by the government?

Mr. COLYER: I know quite a few instances. I think we could where they travel on government warrants. Where they go and buy a ticket with cash, we have no indication that they are travelling on government business; but there is a substantial amount of government business over the line that is paid for by the government.

Mr. JACKMAN: I do not suppose you try to attract American travellers over our lines?

Mr. COLYER: We certainly do.

Mr. JACKMAN: I mean, where they originate in the United States.

Mr. COLYER: We try to get them from Seattle. That is the only place where we have any traffic organization in the United States. We try to get them to use Trans-Canada Air Lines coming east to Toronto, Ottawa, Montreal or even to Winnipeg.

Mr. JACKMAN: That is where they have a Canadian destination.

Mr. COLYER: It is against the law, theoretically, for us to carry a passenger from one point in the United States to another point in the United States. We do not operate that way at the present time, but we may eventually. There have been cases when passengers have flown from Seattle to Montreal who were going to New York city, using the Canadian colonial from Montreal down to New York.

Mr. JACKMAN: The difficulty in getting American funds now might possibly allow you to increase your rate, so far as competition with the United States is concerned.

Mr. LOCKHART: Mr. Chairman, in concluding this matter of passes given to large groups of people on the Trans-Canada Air Lines, are we to understand that at the next meeting or at future sittings of this committee we will have a better break-down along the lines suggested by Mr. Harris, indicating the approximate number and to whom these passes are issued? We will get that at future deliberations? It will be officials of the air line who will have that information so that they can give it to us.

The CHAIRMAN: We have been assured of a full report.

Mr. LOCKHART: That is to be understood?

Mr. COLYER: It will be exact information.

Mr. LOCKHART: Although the general public are jittery in so many ways these days, they feel that the issuing of passes is growing into the same proportions on this new system as it has grown in the railway system. I suggest that we have this information for the use of future meetings.

Mr. JACKMAN: Before leaving the whole matter, Mr. Chairman, the item of accounts receivable in the balance sheet, of \$451,466.54, is a rather large item. I was wondering how it arose generally.

Hon. Mr. HOWE: I think that arose through tickets—interchange.

Mr. COOPER: There were two main items. We sold five 10-A aircraft to the War Supply Board, and part of the sales consideration is outstanding at the end of the year. The Post Office Department is the other large debtor. The War Supply Board were owing \$228,000, and the Post Office Department were owing \$158,000 at the end of the year. Those two items substantially represent the total of accounts receivable.

Mr. JACKMAN: Most of it has nothing to do with the ordinary commercial operations of the line.

Mr. COOPER: The Post Office Department represents mail pay.

Mr. BRADETTE: In that item, excess baggage 21,000 lbs., is that an extra charge for that extra poundage?

Mr. COLYER: Yes, an extra charge by the rate that is approved by the Board of Transport Commissioners.

Mr. HANSON: Is that so much per mile or so much per pound? How is that arrived at?

Mr. COLYER: I believe it is 1 per cent of the ticket fare between the two points concerned, per pound of excess.

The CHAIRMAN: Now have we finished with this report?

Mr. BLACK: Now, Mr. Chairman, the second largest expense is ground operation and maintenance, \$636,000 odd. I would like to have a little more information as to what ownership or responsibility comes under the Trans-Canada Air Lines with respect to airports. I understand that most of the airports are built from another fund, another department of government and are used by Trans-Canada Air Lines, and the question arising is whether that is correct and as to what rentals are paid, if any, and what maintenance expenditures are defrayed by Trans-Canada, if any.

Hon. Mr. HOWE: Generally, the Trans-Canada pays landing fees for all the fields they use. If they use a government field they pay the government so much, I believe it is \$100 a flight.

Mr. COLYER: \$100 for the first schedule and \$50 for each additional schedule.

Hon. Mr. HOWE: Yes.

Mr. COLYER: That is per month.

Hon. Mr. HOWE: And in addition to that, of course, the Trans-Canada operate their own hangars, their own terminal facilities, they have their over-haul crews at the principal stopping places with their main over-haul at Winnipeg, the services for running their own line, and they pay rental for any hangars they use that they have not built themselves.

Mr. HANSON: Did we have a reply about the excess baggage?

Mr. COLYER: I said 1 per cent of the one-way passenger fare. It is one-half of 1 per cent per pound of excess baggage. Two hundred pounds excess baggage would equal a full fare ticket.

Mr. JACKMAN: If the revenue to be received from passengers will total \$1,800,000 this year as against \$643,000 in the year 1939, that would be the place, I suppose, where most of that profit would come from that you are estimating for the total operation of the line—there would be a big profit, I take it, in the increase in estimating revenue from passengers \$1,800,000 against \$643,000 last year.

Hon. Mr. HOWE: Of course, we are flying more miles.

Mr. JACKMAN: The cost of operation.

Hon. Mr. HOWE: The cost of ground operation will not be up nearly in proportion to the extra miles flown. The first flight takes almost as much ground service as the second, third and fourth flights.

Mr. JACKMAN: There will be a substantial amount of profit in that increased revenue from passengers.

Hon. Mr. HOWE: We hope so. It is hard to say whether the profit comes from passengers or from mail.

Mr. BRADETTE: Do you expect to get increased revenue with increased equipment?

Hon. Mr. HOWE: Oh, yes, we are keeping our equipment longer in the air. We have the same number of planes as last year but we are flying them more hours per plane.

Mr. BLACK: How many Trans-Canada Air Line ports are used by the T.C.A., and who has the ownership of those airports—the Dominion government?

Hon. Mr. HOWE: In Moncton we own the airport. In Montreal we own the airport—

Mr. BLACK: Is it the Canadian National Railway or the Dominion government?

Hon. Mr. HOWE: The Dominion government. In Moncton we own it, in Montreal we own it, in Ottawa we own the airport, at North Bay we own the airport. At Toronto the city owns the airport, at Winnipeg the city owns the airport, at Regina the city owns the airport, at Lethbridge the city owns the airport, at Edmonton the city owns the airport, and at Vancouver the city owns the airport

Mr. JACKMAN: I asked the minister for the amendments to the Trans-Canada Air Lines Act of 1937 in order that any surpluses which accrue this year will not be used as part of the basis for figuring the air mail contract for next year. You wish to extend the initial term of 1937, aimed to end in 1940 rather than in 1937; is that simply to fortify the reserves of the Trans-Canada system or—

Hon. Mr. HOWE: No, you misunderstand the purpose of the amendment. Without the amendment, the rate for this year, the mail rate for this year, would have been the rate determined last year which was considerably higher than 60 cents. As I say, we did not carry passengers at all prior to last year and we did not have a full year to base it on so the result is that without the amendment the rates for mail which we could have claimed quite legitimately would have been about 70 cents a mile; but we passed that amendment because we did not think it was fair to assess the cost of carrying mail on the results of last year, not having a full passenger year to base it on; but the rates this year, under the amendment—the rates established in 1940 will definitely determine the mail rate of 1941.

Mr. JACKMAN: If there is a surplus in 1940, half of that surplus will be used to reduce the rates to the business?

Hon. Mr. HOWE: That is correct.

Mr. JACKMAN: The purpose of that amendment was not to allow the Trans-Canada to keep additional funds?

Hon. Mr. HOWE: Oh, no, to prevent them accumulating additional funds.

Mr. JACKMAN: It is an unusual item, I think, in government statements to have that capital stock subscription unpaid carried forward. It is \$1,250,000 which the Trans-Canada can call up in the way of unpaid subscriptions, I presume, from the Canadian National Railways.

Hon. Mr. HOWE: Yes. If they require additional capital expansion; but it is generally understood for this year there will be no material capital expansion.

Mr. JACKMAN: I suppose there is a liability in the C.N.R. account somewhere for that.

Hon. Mr. HOWE: No, the C.N.R. have not drawn down the money; the money is in the treasury of the government.

Mr. JACKMAN: You cannot have it as an asset on the T.C.A. books without having a corresponding liability in some other books—it must be in the C.N.R. some place.

Hon. Mr. HOWE: It is not an asset: it is a power to create an asset.

Mr. SMART: \$3,699,000 is the asset; capital asset \$3,065,000. It is offset by \$5,000,000 less \$1,250,000.

Mr. JACKMAN: Yes, I see how you total it. It is really a contingent asset.

Mr. COOPER: I think what you have reference to is covered by the note on page 21 of the railway report "Major Contingent Liabilities" the first item "Trans-Canada Air Lines".

Mr. JACKMAN: Yes, I see. It is a footnote, and not taken into the account.

Mr. COOPER: The contingent liability will be taken up whenever an additional call on the stock is made, but the call has not yet been made, and there is no present liability. There is a contingent liability, and that is recorded.

Mr. JACKMAN: Is not that rather unusual in the accounting of government-owned enterprises?

Mr. COOPER: I do not think so. Our investment in Trans-Canada to-day is three and three-quarter million dollars. We show that as an asset.

Mr. JACKMAN: I understand. As it applies here it seems unusual, although there is no particular importance attached to it. It is rather unusual looking at it. It happens in other accounts of some of your subsidiary companies? Perhaps you have no set of circumstances the same as this?

Mr. COOPER: We have the Northern Alberta Railways where the situation is the same.

Mr. JACKMAN: On capital account?

Mr. COOPER: Yes, sir.

Mr. McCULLOCH: Can you give any idea to the committee when the air mail will be carrying mail from Moncton to Halifax, and from New Glasgow to Sydney?

Hon. Mr. HOWE: That is a matter of airports chiefly. As I say, we always expected and were planning to use the Dartmouth airport and the Sydney airport. We are not able to do that now. It is exceedingly expensive to build an airport in the Sydney area, and I think the only alternative is to wait until the military needs permit us to use that airport.

Mr. McCULLOCH: The Sydney airport is under construction.

Hon. Mr. HOWE: It is practically finished, but it is a national defence airport, of course.

Mr. HARRIS: In the case of a machine cracking up, or in the case of the loss of a costly piece of equipment, is that immediately absorbed in the current business of the year, or is it just charged to the depreciation account? For example, I think you had a machine smashed up in Regina last year entailing heavy capital loss; is that written off the current year's business? Say there was 20 per cent written off immediately the machine was put into service, 80 per cent is lost out of your capital account. Is that absorbed in the current year's business, or is it the policy of the T.C.A. to charge that against the sum total of depreciation reserves?

Mr. COOPER: When the accident at Regina happened, we wrote off the complete investment. To the extent depreciation had been accrued, that portion

was charged to depreciation reserve. Also we had set up a crash reserve, and we charged as much as was available in the reserve. The balance was charged off as operating expense, so that the complete loss was accounted for by charges to operation to the date of the accident, either as depreciation, crash insurance, or as direct operating expense.

Mr. HARRIS: That is the policy?

Hon. Mr. HOWE: It was not thought wise to carry that crash reserve as a deficit account. In other words, we took all the money there was in the crash reserve and we charged the balance to the operation in the air.

Mr. HARRIS: Is that figure there? I do not want to delay the committee. You can put it on the record.

The CHAIRMAN: Are we through with this report gentlemen? If so, would it be in order to move its adoption?

Mr. HARRIS: Mr. Chairman, the adoption of the report, as far as I am concerned, will be moved on division, and if you want the reasons I shall be glad to recite them now. The first reason is that the company's budget for 1940 was not tabled until to-day. We have only had the annual report before us right through. We have that budget now. It was not down in time for us to give any serious consideration to it, and for that first reason I should like a recorded division; secondly, as an observation, they contemplated there would be a profit for the year after depreciation, and the thought runs in my mind, a profit to whom? Who will get a profit? The enterprise is owned in the final analysis by the Canadian people; it is a branch of the Canadian service, for lack of a better word, and I am not complaining about the system; but it receives moneys or subsidies from another branch, namely the Post Office Department, which helps to keep its business on a profit basis. To say it is contemplated that there will be a profit for the year is not a fair statement to make to the Canadian people inasmuch as that profit is coming from another department of government. For that reason I purpose, as far as I am concerned personally, that the record go on division.

Mr. HANSON: I move the adoption of the report.

Mr. HARRIS: My third reason is that I am not satisfied with the clause under personnel. The information was given in camera and I do not purpose to pursue the matter. I refer to the cost of consultants.

The CHAIRMAN: It has been moved by Mr. Hanson, seconded by Mr. McCulloch that this report be adopted. In my opinion the motion is carried.

Now, we have dealt with the annual report of the Canadian National Railways system, with the report of the Canadian National (West Indies) Steamships Limited, and with the auditors report and the Canadian National Railways Securities Trust, and we have allowed ample time, I think, to reconsider any points up to the present, and if the committee is through with those reports, it will be in order to adopt them.

Mr. HARRIS: Mr. Chairman, we have not considered the budget for the year 1940.

The CHAIRMAN: No, that is still open.

Mr. HARRIS: What is your purpose now? We are in the hands of the chair. Is it your purpose to put a motion on this?

The CHAIRMAN: If you would prefer to consider this budget before adopting the reports that have gone on it is up to the committee to decide.

Mr. HARRIS: It is up to the chairman to say.

The CHAIRMAN: Well, I put it up to you; and if you wish to make a motion with regard to the division of these reports, well and good; and if not, we will proceed with some other matter.

Mr. HARRIS: If we must have a motion, I move that we consider the budget of the Canadian National Railways and the Canadian National Steamships for the year 1940.

Mr. MACINNIS: I will second that motion.

Motion agreed to.

The CHAIRMAN: Will one of the officials kindly read this budget?

Mr. HUNGERFORD: I will ask Mr. Armstrong to read that.

Mr. ARMSTRONG: This is the budget of the Canadian National Railways and the Canadian National Steamships for the year 1940. It is as follows:

CANADIAN NATIONAL RAILWAYS AND CANADIAN NATIONAL STEAMSHIPS
BUDGET FOR YEAR 1940

SUMMARY

Canadian National Railways—All-inclusive system	Reference page	Amount	Total
Net Income Deficit			
Canadian National Railways.. . . .	2	\$20,000,000	\$20,000,000
Capital Expenditures			
Additions and betterments, less retirements.. . . .	3	4,649,000	
New equipment purchases.. . . .	3	1,665,000	
Acquisition of securities.. . . .	4	590,000	
Retirement of Maturing Capital Obligations			
Including sinking fund and equipment			
Principal payments.. . . .	5	8,200,000	15,104,000
Total budget.. . . .			\$35,104,000

NOTE.—Net income deficit of \$20,000,000 includes \$1,396,400 for contribution to deficit of I.C.R. and P.E.I. Provident Fund, and \$100,000 for contribution to Grand Trunk Railway of Canada Superannuation and Provident Fund Association.

Budget requirement does not include new equipment purchased under 1939 orders placed by the War Supply Board, amounting to \$14,909,144, on which first repayment installment will be made in 1941.

Statutory Authorizations

Trans-Canada Air Lines, authorized under Chapter 43, year 1937.. . . .		1,250,000
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Canadian National Steamships

Canadian National (West Indies) Steamships, Limited		
Net income available towards payment of interest on advances by Government of Canada.. . . .	6	225,000
Capital Expenditures		
Additions and betterments.. . . .	6	21,000

CANADIAN NATIONAL RAILWAYS (ALL-INCLUSIVE SYSTEM)
BUDGET FOR YEAR 1940

	Amount	Total requirements
Net Income Deficit		
Operating revenues, excluding 20 per cent contribution, M.F.R. Act..	\$247,450,000	
Contribution from Government under Maritime Freight Rates Act (20 per cent)	2,150,000	
Government share of Operating Account P.E.I. Car Ferry and Terminals	400,000	
Total Operating Revenues	\$250,000,000	
Operating Expenses	207,000,000	
Net Revenue from Railway Operation	\$ 43,000,000	
Taxes	6,270,000	
Other Income Debits or Credits—Net Debit	1,046,000	
Net Income before Fixed Charges	\$ 35,684,000	
Fixed Charges—		
Interest due Public on Long Term Debt	\$ 50,186,000	
Interest on Dominion Government Loans for Capital and Refunding	1,357,000	
Other Fixed Charges	2,758,000	
Income Requirements	\$ 18,617,000	
Profit and Loss Items—Net Debit	1,383,000	
Estimated Net Cash Requirement on Deficit Account	\$ 20,000,000	\$20,000,000

NOTE.—The 1940 Estimated Net Cash Requirement on Deficit Account of \$20,000,000 includes \$1,396,400 for Contribution to Deficit of I.C.R. and P.E.I. Provident Fund, and \$100,000 for Contribution to Grand Trunk Railway of Canada Superannuation and Provident Fund Association.

The CHAIRMAN: Do you wish to ask any questions on the material which has been presented up to this point?

Mr. HARRIS: Yes. With regard to that item for new equipment, \$14,909,000; that will undoubtedly retire old equipment immediately it goes into service; is that right—a good deal of it?

Hon. Mr. HOWE: That was outside of the requirement. At the outbreak of the war we surveyed the situation on both railways. We did not want the railways to interfere with the war programme from time to time by ordering new equipment. We asked them to look over the situation and advise us how much additional equipment they would require to handle new business arising out of the war. We received estimates for about \$15,000,000 from the Canadian National Railway and \$10,000,000 from the Canadian Pacific Railway. The government decided to get that business out of the way, that it would purchase the equipment on government order and lease it to both railways on an equipment retirement plan so as to build up a plan very similar to—it is exactly the same as—that which was carried out by the Bennett government in 1932, with respect to the purchase of engines, locomotives and rails. Items of equipment of that kind were purchased by the government and the railways were given time to pay for it over a period of years, I think the period was fifteen years.

Mr. HARRIS: Did you say, retired?

Hon. Mr. HOWE: Retired over a period of fifteen years; principal and interest retired over a period of fifteen years.

Mr. HARRIS: That is to say, this new equipment of \$15,000,000 will be retired starting in 1941, interest and principal, over a period of fifteen years?

Hon. Mr. HOWE: That is correct.

Mr. HARRIS: And it will not replace the capital set-up of the system as it presently stands, will not replace any equipment which is being retired?

Hon. Mr. HOWE: No, this is additional equipment; new.

Mr. HARRIS: Yes. I understand it is additional, but this additional equipment will not replace any equipment which is presently capitalized and is ready for retirement?

Hon. Mr. HOWE: That is quite correct.

Mr. JACKMAN: The retirement plan does not come into operation until 1941. I suppose there is an accrual charge for this new stock?

Hon. Mr. HOWE: I think none of it is delivered until well on in 1940 so that payment in 1941 will be after the first year of service.

Mr. JACKMAN: But are you charging current operations as the new equipment is being used? You are building up your fund to make your fifteenth part of the total payment—whatever the plan is—you are not using this rolling stock equipment which is new equipment without some charge being made for it to the railway system?

Hon. Mr. HOWE: I presume all accrued charges will be included in the statement, that the portion which is accrued out of the first year's payment will be charged against this year.

Mr. JACKMAN: As soon as you start using the equipment?

Hon. Mr. HOWE: Yes.

Mr. SMART: It is on a rental purchase basis.

Mr. JACKMAN: I realize your first payment under the plan though will not take place until 1940 when you will have been using the cars perhaps for a year.

Hon. Mr. HOWE: But, of course, you include all the accrued charges at the end of the year; the accrued equipment charges as well as the accrued interest.

Mr. BLACK: What is the percentage of interest charged?

Hon. Mr. HOWE: I am told that the Finance department have not given us a final ruling on that point yet. The practice is to charge one-half of one per cent more than it costs the federal government to borrow money on equivalent terms. It will be $3\frac{1}{2}$ per cent or $3\frac{3}{4}$ per cent, or something like that.

Mr. MACINNIS: What is the amount of the equipment leased to the C.P.R.?

Hon. Mr. HOWE: About \$10,000,000.

Mr. HARRIS: Have you a break-down of the \$207,000,000 operating expenses?

Mr. ARMSTRONG: No, sir, there is no break-down here of the \$207,000,000.

Mr. HARRIS: I notice six separate items. It should be a simple matter to have that information supplied.

Mr. ARMSTRONG: That can be broken down for you if you so desire. We will have a statement prepared for you.

Mr. BRADETTE: Mr. Chairman, I cannot hear the witness.

Mr. ARMSTRONG: I said, that can be broken down and we will have a statement prepared if you wish.

The CHAIRMAN: All right.

Mr. HARRIS: Perhaps the witness could tell us this: What is the major item in this connection? How much is of a temporary nature that will last only while the war is on? I appreciate that you will be handling more traffic, but I am very disappointed that this budget does not reveal a condition like that in 1928. You have a net deficit estimated here of \$20,000,000 while at the same time you have a very substantial increase in traffic. There is no reason to my mind why we should not approach much more closely to a balanced budget, taking into consideration the fact that we have lifted out of capital account all this investment, interest charges and a good deal of capital charges; I think the total

figure is a billion some odd, so I say that we ought to strive in this year of grace 1940 to balance this budget. Instead of that we find an estimate coming in for, I think, only \$5,000,000 less than this year; is that right?

Mr. ARMSTRONG: No, it is about \$20,000,000 less.

Mr. HARRIS: Your increase of traffic indicates an increase in revenue of over 20 per cent, and 20 per cent of a quarter-billion is \$50,000,000.

Mr. HUNGERFORD: This is an estimate of the gross revenue for this year, and it amounts to \$250,000,000. In 1928 there was well over \$300,000,000.

Mr. HARRIS: Quite. I think the revenue this year ought to approach \$300,000,000 if I may make the observation. We have done everything possible. In the budget brought down recently everything tends to help the situation. The 10 per cent extra charge on coal coming into Canada ought to give you very considerable revenue. Then, you have the prospect of a great wheat crop and there is a tremendous movement of heavy materials; metals such as zinc, iron, nickel and so on. I think that this budget was brought down early before you had the experience of the last six months. I think that a management of outstanding men such as we have running this railroad, Mr. Chairman, instead of just giving us an historical recital of what has happened, instead of sitting back there and attending to their business of running this railroad on a day to day basis ought to give us something better. We do not get in Canada any policy for the future. They do not attempt to settle the problem of what they are going to do with this institution in the days to come. We have an example of it right here in this committee. You, Mr. Chairman, permit this budget to be brought down. Everybody in the committee knows that this budget was prepared some time ago. We want to look further than that. This is not a new situation. The men who have been charged with the responsibility of conducting the affairs of the Canadian National Railway from its inception practically have been coming to this innocuous committee from time to time, giving us a recital of what has happened, with the effect that their appearance before this committee has resulted in almost every case in what one might term a fishing expedition. We do not like being put into that position of having to fish around to try and find out what is happening. That is not the purpose, as I view it, of this committee. We are forced to do that, however; as a committee we have to sit here and look over an historical recital of what has transpired for the year ending December 31st, 1939. When you put a question to a witness you have the feeling that you are going on some sort of a fishing expedition. We are here, as I view it, to examine the policies adopted, and to try to get this budget balanced. We look for leadership from the expensive men whom we have hired to run this railroad. There is an absence of that in this report. There is nothing in this budget to indicate that they are moving in any new direction such as that which is running through my mind. Next year when the T.C.A. budget comes down we will still be doing the same thing. There is nothing in this material which affords us any hope as to how we are to get out of our present difficulties, nor is there anything in this budget which gives us even the slightest hope, because you move along from an operating charge of \$176,000,000 or \$182,000,000, until now it is \$207,000,000. To my mind it is going to be very hard to retract from that position. Now, with respect to this 207,000,000, I would like to know how much of that in the breakdown is definitely due to conditions under which we are now working. At the same time, I would like to have some statement of policy as to what the management have in mind for the future. I would like to have a statement from the railway management as to what the operating charges were in 1928 as compared to the operating revenue for that year.

Mr. ARMSTRONG: In 1928 the operating revenue was \$312,286,000, and the operating expense was \$256,247,000, giving a net revenue from railway operation of \$56,039,000.

Mr. HARRIS: If we maintain our present rate of activity throughout the current year in my estimation you will have a revenue of \$300,000,000, but some day this war is going to stop and we are going to have a restoration period; then, what foresight on the part of the administration is being put into effect or is being kept in front of them so that they can recede from this \$207,000,000 position back to something more in comparison with revenues which might come in when the war has stopped. Everybody present here knows that there will be such a change coming some day just as well as they do.

Mr. HUNGERFORD: That is a matter which has to be adjusted from time to time in the light of circumstances which exist.

Mr. HARRIS: After the events, or before?

Mr. HUNGERFORD: To a certain extent before. As traffic drops, of course, every effort is made to reduce expenses, but traffic is a variable factor to a very large extent; that is obvious.

Mr. HARRIS: There is very little of policy in any of this work that comes before this committee. I hope that at some future time we will be able to get a little more definite information as to future policy.

Mr. HUNGERFORD: These reports are reports which we are required to file under the provisions of the Railway Act.

Mr. HARRIS: I understand that.

The CHAIRMAN: Gentlemen, I think you can have any information you require if you ask for it. I do believe that the function of this committee is to acquaint itself with the management of the railway and if it is felt that there is room for improvement the committee are free to indicate in their report that such is the case. It is a very easy matter for you to get any information desired which is not before you by simply asking for it.

Mr. MACINNIS: I think, Mr. Chairman, that Mr. Harris is asking for the impossible. It would be very nice indeed if we could get the management of the Canadian National Railways here and ask them to give us a policy, or to work out a policy that will so operate that at the end of a particular period it will show a profit; but, unfortunately, that cannot be done, no matter how expensive or what the ability of the management because the profit or loss of the Canadian National Railways would depend upon the economic conditions of the Dominion of Canada, conditions which the management of the railway cannot change. It is just possible that the government may have something to do with determining the policies of the Dominion in such a way that the railway would show a profit or would make a better showing, but certainly in my opinion it is not something that the management of the railway itself can do; and if your railway management decided, or worked out a policy to meet the situation that will most likely prevail at the end of the war, that would involve serious repercussions which would be heard in parliament, and we would find out that the people who are anxious now that the management should work out a policy that would show a profit would immediately say the railway is a public institution and must work for the interests of the Canadian people regardless of profit. These are things we must face, and I do not think it is of any use to come here and ask the railway management to work out a policy; whatever the policy is will depend on conditions in this country at any particular time.

The CHAIRMAN: Before going any further I would like to know if there is any question any member of the committee would like to ask, or if there is any information any member desires that has not been supplied? I think the manager is quite prepared to supply any information at their disposal.

Mr. HARRIS: I would like to know of the operating increase, that figure \$207,000,000, how much is temporary?

Mr. ARMSTRONG: The amount of operating expenses, of course, depends upon traffic. A certain proportion of the expenses is in the nature of fixed or constant expenses which go on independently of the volume of traffic. The balance of the expenses varies directly with the operating revenue. Naturally, as operating revenues go up, the expenses will go up, and, as they go down, the expenses will go down; always, of course, bearing in mind that prices of materials and wage rates are on the same basis.

Mr. LOCKHART: What are the fixed amounts? What is the proportion of 207?

Mr. ARMSTRONG: You can only roughly estimate it, but I would say the fixed expenses are probably about one-third of the total, and, direct, about two-thirds.

Mr. HARRIS: That is \$140,000,000 is controlled?

Mr. ARMSTRONG: Controllable? I do not quite understand you.

Mr. HARRIS: The fixed amount is one-third?

Mr. ARMSTRONG: Yes. The \$140,000,000 are controllable with the traffic volume. They will vary with the traffic volume.

Mr. HARRIS: There are no interest charges at all in these operating expenses?

Mr. ARMSTRONG: No, sir.

Mr. BRADETTE: In connection with operating revenues, I should like to get a certain amount of information in connection with British Columbia lumber. Last year I was delegated by my own section of the country to appear before the transport commissioners to see if some of this business could not be brought through northern Ontario. The commissioners told me that a lot of the lumber used to go by water, and I asked if it would be possible to have some of it re-routed through my section from Winnipeg to Cochrane. I believe we have received one shipment so far, part of a train load. Why is not our own section used when it is practically idle west of Hearst?

I should also like to make this statement. Last year during the visit of Their Majesties the C.N.R. told my section of the country that Their Majesties could not come over our section because the road was in such a bad condition. We were satisfied to accept that statement because we did not want to see our Royal guests meet with any accident. A few days after the royal visit something happened on a section of the line, and one of these heavy trains was re-routed over the section of the railroad which was supposed to be in bad condition. I should like to have some explanation of this, because we feel in our section that we are absolutely stifled. We feel that the administration of the C.N.R. is not being fair to our section.

We have had one train load of B.C. fir coming over our section, and this line is absolutely unused at the present time. Why it is, I do not know.

Mr. HUNGERFORD: As a matter of fact, the volume of B.C. lumber that moved east for transshipment across the north Atlantic has been comparatively small, and the main line through Capreol is more than capable of handling the volume of traffic.

Mr. BRADETTE: There has been a congestion in that section.

Mr. HUNGERFORD: So far as the line west of Hearst is concerned, we keep it in a reasonably safe condition because we have not enough traffic on that section to warrant keeping it at a higher level. We keep it safe, but not as smooth as other lines.

Mr. MACINNIS: Has the quantity of British Columbia lumber shipped to the Atlantic coast turned out to be as large as was expected at one time? It was expected at one time that there would be a considerable quantity of lumber shipped to the Atlantic coast. That has not materialized, has it?

Mr. HUNGERFORD: It did not materialize.

Hon. Mr. HOWE: These boats are still going direct. There was a very great shortage of ocean tonnage. The collapse of Norway turned all that shipping into the hands of Britain, and I think that probably ninety per cent of all the lumber that is shipped from British Columbia to the old country goes direct through the Panama Canal by boat.

Mr. BRADETTE: In connection with the labour situation, I should like to ask the administration of the C.N.R. a question. I have in mind that a young man starts on the railroad as a trainman and he may be on a spur line for as long as twenty years, and that man is always at the beck and call of the railway. I maintain it is not fair to these men. Many of these men have started as single men, but have later got married. They are supposed to be at the beck and call of these organizations. No other industry or institution employing labour is in such a fortunate position. Something really should be done with respect to that situation. It is absolutely unfair to these young men, and I should like to see some regulation emanate from the administration of the C.N.R. and the C.P.R. to correct this situation. It is too long for them to wait, fifteen or twenty years. You must have had a lot of criticism on that score. I am wondering why the labour unions have not taken hold of that situation. They could certainly build up a case in the minds of the public. I know the administration wants to be fair to these men, but they are certainly not being fair.

Mr. HUNGERFORD: Railway men work under what is known as the seniority rule. Older men in the service have the right to such work as there is; the younger men take what is left.

Mr. BRADETTE: What is left is right, and sometimes there is practically nothing left at the end of fifteen years.

Mr. HUNGERFORD: We are working under regulations that are the result of an agreement between the labour organizations and the railway.

Mr. BRADETTE: Surely it should be possible for the management to correct the unfairness and the injustice to these men.

The CHAIRMAN: What can they do about it?

Mr. BRADETTE: It is such an unfair thing.

Mr. HUNGERFORD: These are the conditions that they want to work under.

Mr. BRADETTE: If other industries had the same latitude they would be in a happy position. The railways are being criticized by a number of their employees at the present time. It is not a healthy situation.

Mr. HANSON: The unions have made those arrangements themselves.

Mr. BRADETTE: Oh, yes, but you know what they do sometimes.

The CHAIRMAN: We have been losing one or two of the members of our committee and we will soon be losing a lot more. I should like to know about this afternoon before any more members leave.

Mr. HANSON: We have not time to get through to-day, have we, Mr. Chairman?

The CHAIRMAN: I hope so. We will certainly want to sit this afternoon if it is at all possible. Is it satisfactory to the committee to re-assemble at four o'clock?

Mr. HARRIS: I move we adjourn.

The CHAIRMAN: I am not thinking about adjourning, I am thinking about re-assembling.

Mr. McCULLOCH: I move that we meet at four o'clock this afternoon.

Mr. MacINNIS: I second the motion.

The CHAIRMAN: Now we have a motion to adjourn.

Mr. MacINNIS: Why not sit for another fifteen minutes.

The CHAIRMAN: All right.

Mr. JACKMAN: Might it not be of assistance if at future meetings we had along with the figures for the budget for the coming year the actual figures for the previous year? Perhaps being a new member I am not as familiar with the accounts as some of the members. There is an estimate of net cash deficit of \$20,000,000. Does that correspond with the \$38,239,000?

Mr. ARMSTRONG: Are you referring to the \$40,095,000 set out in the annual report?

Mr. HUNGERFORD: The figures are all given in the annual report.

Mr. ARMSTRONG: \$40,095,000, I think, is the figure.

Mr. COOPER: It is shown on page 4 of the annual report.

Mr. JACKMAN: I think it would be of assistance if we had the corresponding figure for the previous year. It would not be very much trouble for the accounting department to include these figures.

Mr. HARRIS: Are the figures for the operating revenue for the year 1940 available? I do not suppose you have them for June 30?

Mr. COOPER: Yes, we have them up to June 30.

Mr. HARRIS: What is the operating revenue to June 30?

Mr. COOPER: The actual revenue—

Mr. HARRIS: No, I do not want any other word added. The word "actual" has been added, and I object to that word. It says, "Operating revenues, excluding 20 per cent contribution, M. F. R. Act—\$247,450,000." That figure of \$247,000,000 is a comparative figure.

Mr. COOPER: I do not have that figure. I have it including the 20 per cent.

Mr. HARRIS: Could we not have that? I want to get a comparative figure. Otherwise it is of no value.

Mr. COOPER: Of the budgeted figure of \$250,000,000 we have earned to June 30 this year \$130,681,000.

Mr. HARRIS: For the operating expenses of \$207,000,000, have we a comparative figure?

Mr. COOPER: We have spent \$97,481,000. That is the position for the first six months.

Mr. HARRIS: As I understand it, that is about 21 per cent.

Mr. COOPER: The increase in revenue in the first six months of this year over last year was 29.7 per cent.

Mr. HARRIS: Roughly 30 per cent?

Mr. COOPER: Yes.

Mr. HARRIS: If that condition obtains, with the heavy movement of crops during the next six months' period, your estimate of \$250,000,000 is quite low?

Mr. COOPER: Yes.

Mr. HARRIS: Could we have a more up-to-date estimate? I will not hold the management to it at all, but if the management feels so disposed, just as a matter of information, I should like to know what they expect that is going to be.

Hon. Mr. HOWE: You are asking the management to dive in the dark. We may have a good crop this year; we probably will, but we are faced with a very

serious congestion at the terminals. The chances are that the crop movement will be very much less than last year due to the fact that we have nowhere to put the crop. This is the management's estimate.

Mr. HARRIS: Let me put the question in another way, if I may interrupt the minister, just to make time. We anticipate, according to this budget, moving up from a position of \$203,820,000 to a position of \$247,450,000.

Mr. COOPER: No, sir—\$250,000,000.

Mr. HARRIS: All right; I have not got the comparative figures for the \$250,000,000. What is the comparative figure for the last year? Where do we find it? Where do we find the comparative figure of the \$250,000,000?

Mr. COOPER: You can find it on page 4, also on page 13 of the annual report.

Mr. HARRIS: What is the figure?

Mr. COOPER: \$203,820,000.

Mr. HARRIS: Is that a comparative figure for the \$250,000,000 or \$247,000,000?

Mr. COOPER: \$250,000,000.

Mr. HARRIS: Then the increase, Mr. Chairman, has been about 24 per cent.

Mr. COOPER: The increase for the budget?

Mr. HARRIS: The budget increase.

Mr. COOPER: It is 22.6 per cent.

Mr. HARRIS: If that obtains for the period of the year we will have had an enhancement of from 22.6 per cent to 29.9 per cent, namely, 7.1 per cent in our favour. I do not know whether it is within the province of this committee, but I have a feeling it ought to be and, if we are going to be of any use, we could amend, especially in this time of war, the requirements as brought down in this budget. They ask for so many millions of dollars. We have had six months' experience which indicates that they are going to have an increase in revenue of seven per cent, or, roughly, \$15,000,000. In view of this we could almost amend this report and not vote any money this year for the Canadian National Railways; in other words, make this committee of some consequence and some use to the country during this difficult time, in cooperation with the management. I do not think they will want this requirement at all.

Mr. HUNGERFORD: The question of what the cash deficit will be this year depends entirely upon the gross. We know what the gross earnings are up to the end of June. We do not know, and I do not suppose anyone knows, what the gross earnings will be for the balance of the year.

The net cash deficit will depend upon the gross. If we get the same gross then the \$250,000,000 cash deficit will be correspondingly reduced.

Mr. HARRIS: In view of that fact, are we now asked, Mr. Chairman, as intelligent men, knowing that we have an extra revenue of seventy per cent, which amounts to \$18,500,000, to turn around and vote blindly this estimate? Could we not as a committee, together with the railway company, show our usefulness at once and amend this report so that the government of Canada would not find it necessary to provide in their estimates moneys we know are not needed?

Mr. ARMSTRONG: There has already been an amendment made. The budget supplied by the railway shows a \$20,000,000 cash deficit. The estimates actually are for only \$15,000,000.

Mr. HARRIS: Yes, I noticed that; \$15,000,000 against \$43,000,000 last year. Would you consider, Mr. Chairman, an amendment?

Mr. BRADETTE: I do not think that is within the province of the committee. After all, there are five more months to go and many things may happen. If the money is not required or needed it certainly will not be used. That is all there is to it.

The CHAIRMAN: Gentlemen, as I see this committee, the national railways and transportation lines belong to the people of Canada. The members of parliament are representatives of the people of Canada, and this committee is chosen to perform the primary investigation of inquiring into the business of railways, waterways and airways—our own business. It is competent for this committee to do anything it likes, to move any motion it likes or to make any amendment it likes, but whether it will pass the committee or not is for the committee to decide.

Mr. BRADETTE: I doubt very much if we have the right to pass that kind of an amendment.

The CHAIRMAN: Our amendment would have to be adopted by the House of Commons before it would have very much effect on the railway.

Hon. Mr. HOWE: If it is adopted it will mean the defeat of the government.

Mr. HUNGERFORD: I should like to say, if I may, that after all this is only an estimate that is laid before you. It is our guess as to what is going to occur. If we get \$250,000,000 gross—

Mr. HARRIS: Our guess, plus six months' experience—January to June 30.

Mr. HUNGERFORD: All right, but you have got to guess for six months, have you not? That six months contains many uncertain factors. The grain situation is a matter of serious concern. I can say to you that if the gross earnings turn out at the end of the year to be \$250,000,000, then the cash deficit will be as indicated here. If the gross is more, the cash deficit will be less.

Mr. BLACK: I think it is well, Mr. Chairman, following up what Mr. Harris has said, for the railway to have an objective. I assume they have an objective here. I should like to see the figures of estimated deficits for the last number of years and what the results were in order to see what variation there has been.

Mr. COOPER: I can give you the figures for last year. The estimated total revenue was \$200,000,000 and the actual was \$203,820,000.

Mr. BLACK: What was the estimated deficit last year? That would be submitted soon after the beginning of the year? When is this budget submitted to the government?

Mr. HUNGERFORD: In the early months of the year.

Mr. BLACK: What was your estimated deficit for 1939?

Mr. COOPER: The estimated deficit was \$43,750,000. The actual deficit was \$40,095,000. There was an improvement over the estimate of \$3,600,000.

Mr. BLACK: What was it for the previous year?

Mr. COOPER: I do not have that. We can get it.

Mr. HARRIS: In connection with fixed charges, the interest due the public on this long term debt, are any capital expenditures or other expenditures in this long term debt?

Mr. COOPER: Capital expenditures in 1939 were financed by government loans.

Mr. HARRIS: I am sorry, I did not hear the last two words.

Mr. COOPER: By loans from the government. So that the interest on capital money spent during 1939 is not included in the item "interest on funded debt," but in "interest on government loans."

Mr. HARRIS: Are they included in the next item, "Interest on Dominion government loans"?

Mr. COOPER: Yes.

Mr. HARRIS: How much capital money is included in the so-called Montreal terminal expenditure? Is that all being expended in the year 1940?

Mr. ARMSTRONG: Yes, sir, that is \$3,350,000.

Mr. HARRIS: Is it 1939 or 1940?

Mr. ARMSTRONG: Which page are you referring to?

Mr. HARRIS: Both.

Mr. ARMSTRONG: Are you referring to page 3 of the pamphlet?

Mr. HARRIS: Page 2 of the budget. What is the capital sum represented by the proportion of interest on the Montreal terminal expenditure?

Mr. COOPER: The amount expended last year, was \$2,174,590.

Mr. HARRIS: That is not in this budget, of course?

Mr. ARMSTRONG: It was about \$70,000 in 1938.

Mr. HARRIS: And in 1940?

Mr. ARMSTRONG: The 1940 budget amount is \$3,350,000.

Mr. HARRIS: And in that \$3,350,000 in the budget is this item of \$1,350,000 included?

Mr. ARMSTRONG: No, sir, not in total, because the amount will not be expended for the full year.

Mr. HARRIS: Quite, but the budget figures then?

Mr. ARMSTRONG: \$3,350,000 will not be expended until the end of the year.

Mr. HARRIS: Quite.

Mr. ARMSTRONG: Therefore there will not be a full year's interest on that particular amount.

Mr. HARRIS: In the interest; but the Dominion Government loan will not be paid until the end of this year?

Mr. ARMSTRONG: That is correct.

Mr. HARRIS: The same thing applies. How much of that is interest on Dominion Government loans for capital, and how much is refund?

Mr. COOPER: I could not separate the two items.

Mr. HARRIS: Perhaps you could elaborate on the set-up, the other fixed charges—that is quite a large item—\$2,758,000.

Mr. COOPER: If Mr. Harris would not mind turning to page 19 and 20 of the 1939 report—

Mr. HARRIS: A little louder, please.

Mr. COOPER: Would you please turn to pages 19 and 20 of the printed report.

Mr. HARRIS: Yes. I have the figures here, \$1,767,000; is that a comparative figure?

Mr. COOPER: The total debt is \$1,263,000,000, and the interest charges in 1939 were \$49,814,000. The corresponding figure to that in 1940 is \$50,186,000.

Mr. HARRIS: Much of this interest is payable in New York?

Mr. COOPER: Yes, quite a lot; about \$22,000,000 is payable in New York funds.

Mr. HARRIS: I just don't see the relative figure; what was the amount you said you paid in 1939?

Mr. COOPER: Of the \$50,000,000 total interest due the public, \$22,000,000 was payable in United States funds.

Mr. HARRIS: Is that refinanced, Mr. Chairman, is any principal sum due?

Mr. COOPER: In 1940?

Mr. HARRIS: Yes.

Mr. COOPER: Yes. On page 5 of the budget for 1940 you see retirements of maturing capital obligations amounting to \$8,200,000, and the particular securities included in that amount are set out.

Mr. JACKMAN: We cannot tell from the schedule which ones call for payment in New York funds.

Mr. COOPER: No.

Mr. JACKMAN: But a substantial part of that is payable in New York funds?

Mr. COOPER: Of the principal amount?

Mr. JACKMAN: Of the \$8,200,000, yes.

Mr. COOPER: Yes, a proportion is payable in New York funds. As these are retired the retirement is financed by government loans which are later repaid by an issue of Dominion guaranteed securities.

Mr. HARRIS: In New York?

Mr. COOPER: That depends on conditions. Our present financing is entirely in Canada.

Mr. HARRIS: What I am trying to get at, Mr. Chairman, is this; surely we are not freezing up more liquid money in Canada by retiring loans presently payable in New York by retiring through a method which will take more Canadian dollars for the new investment?

Mr. COOPER: I should say we are.

Mr. HARRIS: We are?

Mr. COOPER: Yes.

Mr. HARRIS: That is a very serious situation, Mr. Chairman; we are short of liquid money in Canada. If we have the opportunity under the Neutrality Act of 1939 to refinance in New York—

Hon. Mr. HOWE: I do not think we are to any extent refinancing in New York. Our general policy has been to refinance in the same market as that in which the present indebtedness is held.

Mr. HARRIS: As I understand it, we are not refinancing in the same market in this instance.

Mr. COOPER: No, we are refinancing in Canada. Our recent issues have been in Canada.

Mr. JACKMAN: Even for retiring New York payments, they have been refinanced in Canada?

Mr. COOPER: That, of course, is entirely a matter of government policy and is not controlled by the railway.

Mr. MACINNIS: I move that we adjourn, Mr. Chairman.

The CHAIRMAN: It is moved that the committee adjourn to re-assemble at four o'clock this afternoon.

(At 1.10 p.m. the committee adjourned to meet at 4 p.m.)

AFTERNOON SESSION

The committee resumed at 4.00 o'clock p.m.

The CHAIRMAN: Order, gentlemen; we will go ahead. I think there were some questions submitted to the chair and the answers are here. We will hear them now.

Mr. COOPER: One question asked by Mr. Harris was: "What disposition was made of investment in aircraft lost near Regina in 1938?"

Answer:

Total cost of aircraft, complete with engine and radio	\$135,561 23
Depreciation accrued to date of loss, charged to depreciation reserve.....	\$ 5,153 16
Value of salvage recovered.....	6,834 59
Amount charged to self-insurance reserve, equal to balance available in the reserve.....	87,921 30
Balance of loss not provided by depreciation or insurance provisions, charged to operating expenses.	35,652 18
	<u>\$135,561 23"</u>

Mr. ARMSTRONG: Another question asked by Mr. Harris was for a breakdown of the \$207,000,000 estimated operating expenses for 1940.

Answer:	Estimated 1940	Actual 1939
Maintenance of Way & Structures.....	\$ 38,650,000	\$ 36,530,000
Maintenance of Equipment..	48,750,000	42,662,000
Traffic.	5,100,000	5,176,000
Transportation.	104,250,000	88,841,000
Miscellaneous operations....	1,600,000	1,298,000
General.	9,200,000	8,972,000
Transportation for Investment — Cr.....	550,000	513,000
Total.	<u>\$207,000,000</u>	<u>\$182,966,000</u>

The CHAIRMAN: Now, gentlemen, if you will turn over page 2 we will proceed with page 3.

Mr. HARRIS: We were not through with page 2.

The CHAIRMAN: All right.

Mr. HARRIS: Take interest on Dominion Government loans. The question asked was how Dominion Government loans were refinanced, and particularly those payable in New York. As I understand the deposition those payable in New York are refinanced with Canadian monies and that is transferred to American dollars. To do that it is necessary for one to go to the Foreign Exchange Control Board, I imagine, and arrange to buy with Canadian dollars enough American currency not only to pay the interest due during the year 1940, but also to pay the maturities due in 1940. The question I want to ask is: Was this matter brought to the attention of the directors of the railway, that they were freezing up Canada's position by buying American exchange; and the question is based on the general policy of trying to conserve our Canadian dollars in Canada during this time of war. I would like to know if this matter was brought to the attention of the directors of the railway company and if they as a matter of policy permitted these loans to be re-negotiated in Canadian funds which are presently payable in American funds.

Mr. HUNGERFORD: All questions in regard to new issues come before the directors.

Mr. HARRIS: Are the minutes of the board of directors available to this committee?

Mr. HUNGERFORD: I suppose anything anybody asks for is available.

Mr. HARRIS: What I am trying to get at is who would make the recommendation for this loan to be negotiated in Canadian funds.

Mr. HUNGERFORD: All matters of policy of that kind, at least all financial matters of that kind, are decided upon after consultation with the Minister of Finance.

Mr. HARRIS: Well then, would the Minister of Finance endorse the recommendation of the Canadian National Railways to secure for them the exchange through the Foreign Exchange Control Board?

Mr. HUNGERFORD: I cannot answer that question off hand. I suppose it really works out that way.

Mr. HARRIS: On these maturities that are still coming due, how are we going to find out what the policy is? Are we going to continue or to maintain this monetary shilly-shallying, as it were, to retire American obligations? The point, Mr. Chairman, is, we are freezing up our position very fast. We would like to know what the policy is.

The CHAIRMAN: Is not that rather a government matter than a railway matter?

Mr. HUNGERFORD: It really is, to a very large extent. We are under the direction of the Minister of Finance in regard to matters of that kind, as to what will be done.

Mr. HARRIS: Then, the question which I am putting to the manager is a question which I really ought to put to the Minister of Finance?

Mr. HUNGERFORD: I would think so.

Mr. HANSON: As I understand it the Minister of Finance is the one who advises with respect to the financial transactions of the Canadian National Railway; is not that the position?

Mr. HUNGERFORD: To a very large extent.

Mr. HARRIS: Who would make the recommendation to the directors?

Mr. HUNGERFORD: After consultation with the Department of Finance it would come from the vice-president in charge of finance to me, and then through me to the board of directors.

Mr. HARRIS: Are the minutes of the board of directors available to this committee?

The CHAIRMAN: I would think they would be. I should think anything having any relation to the railway management would be available to this committee.

Mr. JACKMAN: Perhaps we might just get the amounts of maturing obligations in New York which were refunded last year, and how much in New York funds and how much in Canadian funds; and how much will be falling due this year in New York funds.

Mr. COOPER: I can give you this year. If you will turn to page 5 of the budget you will see maturing obligations amount to \$8,200,000; of that \$4,094,000 is due in New York; in Canada \$3,097,000 and in London \$1,008,000.

Mr. HARRIS: I presume, Mr. Chairman, we will have to pay London maturities in cash. They want Canadian dollars. Is that right?

The CHAIRMAN: I would think so.

Mr. JACKMAN: It would be sound policy.

The CHAIRMAN: They want the equivalent of Canadian dollars anyway I would imagine.

Hon. Mr. HOWE: Of course, any very small amount such as a million dollars is very difficult to take care of by way of a refunding operation.

Mr. HARRIS: I just want to leave my premise with the minister. Quite true there is only a small amount, a total of \$8,200,000; part Canadian, part London and part American; but this is going to be a long war, there is going to be a lot more of these come due. I would like to see a policy enunciated not missing any possible opportunity to keep Canada's position liquid. Now here we are frittering away two million some odd dollars which we will not be able to get back as long as the United States stays out of this war. That is \$2,000,000 frozen up, unless your earnings take care of it; and I think as a matter of policy something ought to be done to scotch that flight of Canadian dollars to the United States to take care of these securities without forcing us to pay the American exchange.

Mr. COOPER: Are you speaking of the payment due under equipment trust obligations?

Mr. HARRIS: Quite.

Mr. COOPER: I do not know that you can refund items of that kind there.

Mr. HARRIS: Which are negotiable under the terms of the Neutrality Act of the United States, 1939.

Mr. JACKMAN: But the securities might not be negotiable, might not that be the situation? Fifteen year old equipment might no be good subject matter for a refunding loan.

Hon. Mr. HOWE: Arranging a loan for a million dollars is quite an expensive undertaking in New York, to arrange for a loan of \$20,000,000 would be much easier. It is the policy of the government, I can assure my hon. friend, to refund everything in New York that can be refunded practically.

Mr. HARRIS: Will the minister give a definite undertaking that he will see that Canadian National obligations are brought into the same high plane?

Hon. Mr. HOWE: Quite.

Mr. HARRIS: There is one other point before you pass page 2. You are asking for \$15,000,000. The order of reference definitely says:

Ordered: That the Estimates on Railways and Shipping included in the Main Estimates for 1940-41 tabled in the House on May 23, 1940, be referred to the said Committee.

That is this committee, and the item referred to, as I understand it, is vote No. 459. Now, this year we have had six months' experience before this committee reached the item. In those six months' experience we found 7.1 per cent more revenue than the budget anticipated. That amounts to somewhere in the neighbourhood of \$7,000,000 which will not be required out of this \$15,000,000. Based on this principle I am going to make the following suggestion; at least, I will be forced to dissent from the findings of this committee; and that is this: This committee—I have been on the committee for quite a number of years, as a matter of fact I was on it from its inception, and this committee developed into a place where the press can get a few headlines about what may appear to be mismanagement or something, members of the committee are put in the position of going on a fishing expedition it would appear whereas we are anxious to serve the country particularly at this time—this committee is asked now to approve of everything that is placed before it without crossing a "t" or crossing an "i". Ordinarily this is not a conspicuous effort. It shows the solidarity between the government and its government owned enterprise. They come here and lay down something and we must take it in its entirety. But here is an opportunity due to the fact that we will not require \$15,000,000, we only require \$6,000,000 to \$7,000,000 according to the estimates that are laid before us, because we have

had the experience of the six months just past. If this committee can see its way clear in co-operation with the management of the Canadian National Railways it seems reasonable that the minister and that this committee should recommend to the house a reduction in this item of \$15,000,000. It is not the first time an item has been reduced in the estimates. I have a very clear recollection in 1922 of a substantial sum, \$999,000 being taken out of the estimates after representations were made to the house. It would inspire confidence not only in that very essential thing, the management of the Canadian National Railways itself, but also in our Canadian government owned enterprises; and it would make this committee feel that for once they were able to do something on behalf of Canada, and it might add to the opinion that Canada has of the present Minister of Transport.

Hon. Mr. HOWE: May I point out to my hon. friend a few facts that he has perhaps overlooked. In the earlier part of the year we were operating with a thin traffic period.

Mr. HARRIS: Quite.

Hon. Mr. HOWE: The traffic results of last year in the spring months were disappointing in our own figures and budget in those months. The increase of \$7,000,000 which he has suggested—I do not know whether the figure is correct or not—is against a budget of \$20,000,000, and not a budget of \$15,000,000. The railways budget is \$20,000,000 and the government budget is \$15,000,000. In other words we arbitrarily took \$5,000,000 off. Now, we may have been justified already in doing that, and we may be justified in going further. But looking at the second half of the year from an operative basis we must remember that we had the second largest crop in the history of Canada in the last four months of last year, and we are comparing that period against a slow traffic period. We have also got to remember that this year while we can expect a crop we cannot expect to see the movement that we had last year. In other words, in my opinion, it will not be possible to use the equipment to capacity as we did last autumn. We have got these facts, basic facts. While I was still Minister of Transport I went into the budget position very thoroughly with Mr. Hungerford and it was his opinion and the opinion of the management, and my own after we had discussed it, that there was nothing in the present situation to justify us in the belief that we would get through with as little as \$15,000,000. As Mr. Hungerford said, we cannot look into the future accurately enough to say what should be done.

Mr. HARRIS: I am only speaking of what we have before us.

Hon. Mr. HOWE: What you have before you is a budget which calls for \$20,000,000 for the railway.

Mr. HARRIS: Since this national budget came down with 10 per cent exchange and the increase in duty on imported coal there is going to be a much greater movement of Canadian coal over the railways?

Hon. Mr. HOWE: I wouldn't count too much on any great increase in traffic of that kind; I do not see where you are going to get back a new Canadian dollar for an old one.

Mr. HARRIS: Why should we not reduce that Canadian National budget calling for a deficit of \$20,000,000, to \$15,000,000 to conform to the deficit that you have in the estimates?

Hon. Mr. HOWE: Because the Canadian National Railway budget is the budget brought by the board of directors, the management of the railway, and they believe that \$20,000,000 is the correct amount. The government believed that it was not necessary to appropriate that amount of money at this time. They believe that if the railway is right and the government is wrong it will still be possible to make an increased appropriation at the end of the year. If the government is right and the railway is wrong we won't have to pay anything more than the figure which appears in the estimates.

Mr. HARRIS: Mr. Chairman, we are losing sight of the fact that we had six months' experience. However, I do not want to waste the time of the committee; all I ask of you, Mr. Chairman, is whether or not that would be considered—a reduction of that item in this committee.

The CHAIRMAN: The only way you can get your answer is through the medium of a motion.

Mr. BLACK: I should say that the minister should support the motion made by Mr. Harris inasmuch as he in this committee represents the government. He might support the proposal to have the estimates of the Canadian National Railway reduced to conform to the government's appropriation in its estimate of \$15,000,000. Especially is that justified inasmuch as we have six months from which to judge results and they seem to indicate the wisdom of the government in providing for an appropriation of only \$15,000,000.

Hon. Mr. HOWE: I might say that contrary to statements that I hear from across the house occasionally, the government does not operate the Canadian National Railways. We own the common stock in the railway but the railway is operated by a president and a board of directors.

Mr. HARRIS: Might I put the same question then to the management?

Hon. Mr. HOWE: Certainly.

Mr. HARRIS: Would they in co-operation with the minister and this committee consider recommending a reduction in their request here for \$20,000,000 to some figure more nearly representative of conditions as they appear at the present time?

Mr. BRADETTE: I do not see the logic of that. If they have only a million dollars of a deficit does it mean they are going to waste that money somehow? It will be at the disposition of the federal treasury. Why not leave the amount as it is? Personally I feel it should be left there and if the deficit is less than twenty million dollars all the better for the country as a whole; but it will certainly show next year. The same thing applies if the figure is less. We may have something coming; we do not know. They may have a deficit of twenty-five million dollars. That will have to be paid by the federal treasury in any event.

Mr. HARRIS: I am concerned about the next six months.

Mr. HUNGERFORD: Speaking from the railway standpoint, this budget has been revised upwards once by the directorate. In the early part of the year, we arrived at a certain figure, \$235,000,000, as I recall it. Later on as the revenue increased it was revised upwards. This was the figure adopted about a month ago; it is approved by the directors. I have no authority to change it without the consent of the directors. But let me say to you that the amount of money that will be drawn down from the government in any event will be the actual deficit no matter what amount is voted. I can state to you here that for every \$2,000,000 additional gross earnings above \$250,000,000 we will reduce the cash deficit \$1,000,000 provided there is no change in material prices and wage rates. In other words, we would recover 50 per cent of whatever that excess may be over \$250,000,000. It looks as if the gross amount may be greater than \$250,000,000, but there are these unknown factors. As I said this morning, the wheat situation is a very large one. It may affect the gross earnings considerably. We cannot be sure. Again I say that it is the best guess that can be made in the light of the evidence that is available.

Mr. HARRIS: At what date?

Mr. HUNGERFORD: I do not see that anyone else can approach it from any other angle. The deficit that will be drawn down will be simply the actual deficit at the end of the year and that will be kept as low as it is possible to do.

Hon. Mr. HOWE: It is analogous to a man going to an architect to get a house built. He tells him what he wants in that house and the architect makes an estimate of cost. He may argue with the architect and get the architect to give him a lower figure, but he will have to pay for the house.

Mr. DONNELLY: What you mean is if your operating revenue is \$290,000,000 you will decrease the deficit?

Mr. HUNGERFORD: I think we would. This is a forecast of what the operating revenue is going to be.

Mr. DONNELLY: It is always contingent upon whether there is a change in the wheat policy or prices of material.

The CHAIRMAN: Well, now, gentlemen of the committee, I think we need not waste more time upon this. I do not believe that we can alter conditions as submitted to us except by general agreement, common agreement.

Mr. HARRIS: That is what I am asking for.

The CHAIRMAN: If there is no common agreement—

Mr. HARRIS: If you say that we are through.

The CHAIRMAN: If there is no common agreement the only way to test it is by means of a motion.

Mr. BLACK: If members of this committee have any responsibility we have to view that responsibility from the light of to-day, the 16th of July, with the experience of six months that have passed. The railway management and the minister have to view it from the standpoint of estimated budget. We are in a little different position; we have to view it from the standpoint of experience and I would say that we are justified, sitting in on this committee to-day, with more than six months of the year having expired and the prospect for traffic over Canada generally being good, in asking that this estimate be reduced at least to conform with the estimate submitted to parliament. I think the estimate of \$20,000,000 should be reduced to \$15,000,000.

The CHAIRMAN: Well, I think there should be a more general expression of opinion in the matter. Without that I do not see how else we can settle it.

Mr. JACKMAN: If there is any virtue in the budget whatever I think that virtue must lie in an accurate budget. If we have the benefit of six or seven months' experience and find that conditions have been better than we expected surely we might consider the worthwhileness of some revision. In other words, what is the budget for? It must be something to aim at and if you accumulated too much fat on your bones in the first six months there is undoubtedly the disposition to sail along rather easily and not cut your expenditures as closely as you might otherwise do. Otherwise, what is the purpose of having a budget at all? You want to have some idea of the course you are going to steer during the year. You find now that your revenues for the six months past have been more than you expected due to events beyond your control. I do not say that disparagingly. You have the experience of the past six months and you should surely set your course based on that. If that is not so why have a budget at all? Why have a budget at all if you do not have an accurate one?

Hon. Mr. HOWE: The whole question about a budget is first the figure in it. Now, that is a figure of gross earnings. The management of the railway would like nothing better than to get something from this committee as to what their gross earnings will be and base a budget on that. The budget of the railway is made up in this way. All the organizations composing the railway, every superintendent on the line puts in his own estimate of what the revenue is going to be and that is all collected and put into the figure which represents gross earnings, and a budget made from that. You have heard the best information of the railway as to what their earnings are going to be. Is this committee going to tell them what their earnings are going to be? If they will I am sure the directors will say, on the direction of the committee, we are going to budget on certain gross earnings.

Mr. JACKMAN: What is the purpose of the budget?

Hon. Mr. HOWE: To forecast the position of the railway, the operating position at the end of the year.

Mr. JACKMAN: And to some extent to guide the management accordingly?

Hon. Mr. HOWE: I do not think it guides the management; the management is guided by circumstances from day to day. They run the railway as economically as possible and prepare to handle the business they see in sight.

Mr. JACKMAN: In other words any change in the budget is on the increase or decrease in operating revenue. It will have very little if anything to do with the amount spent. That is, apart from the fact that we have to spend more money if we do more business. It would not curtail to any extent any expenditures from now on despite the fact that there is quite a change in the situation due to the increase in operating income for the first six months of the year.

Mr. HUNGERFORD: Oh, yes; the operating expenditures are adjusted to the flow of traffic all the time, every month. The main objective, of course, is to keep expenses as low as possible at all times. The situation is reviewed about the middle of one month for the succeeding month and the budget is made up for that month, when it comes through for approval at headquarters; so if there has been a downward trend in traffic our expenditures are immediately cut down as far as it is possible to do. It is quite true that when there is a decrease in traffic you do not have to run as many trains and there is a decrease to that extent, but it carries with it the obligation to reduce as far as possible the expenditures in every direction, maintenance of equipment and tracks and all that sort of thing; and that is under constant consideration and adjustment all the time.

The CHAIRMAN: Gentlemen, the committee at present is practically at a standstill. We cannot get any further except by way of motion, as far as I can see. That is the position of the chair anyway. If there is no motion we will proceed to something else. If there is a motion we will deal with it.

Mr. HARRIS: I will put a motion to this effect. I would move that the management in co-operation with the Minister of Transport in giving consideration to the views of this committee be asked to reduce the estimate referred to by the order to a lower figure in view of six months' experience.

Hon. Mr. HOWE: I think the motion should be that the directors be asked to consider that the gross revenues will reach a certain figure. Would you name that figure?

Mr. HARRIS: I am not competent, Mr. Chairman, to name a figure other than one based on the experience they have given us that they have a 29 per cent increase where they anticipated a 22 per cent increase. Whatever relation that difference bears to the figure for the next six month period.

Mr. DONNELLY: Do you not anticipate a great reduction in the normal revenue from the movement of wheat this year?

Mr. HUNGERFORD: I do expect some.

Mr. DONNELLY: You anticipate a reduction?

Mr. HUNGERFORD: I do.

Mr. DONNELLY: Because as I understand it there are only about a hundred million bushels of wheat in storage. Most of our wheat is going to be stored on the farms and not going to be able to move at all until sometime in May or April of next year. I do not see where you are going to get your ordinary revenue from the movement of wheat this year.

The CHAIRMAN: Let us get this motion straightened out. Have I a seconder for the motion?

Mr. BLACK: I will second it.

The CHAIRMAN: All right.

Mr. BRADETTE: We know the contents of the motion.

The CHAIRMAN: Gentlemen, we have heard the motion. All in favour raise the right hand, please.

Those against.

I declare the motion lost.

Mr. HARRIS: I move that the vote be recorded.

The CHAIRMAN: All right; let the vote be recorded. Those in favour will rise so that we may be sure of the voting.

Those in favour: Messrs. Black, Harris and Jackman.

Those against: Messrs. Bradette, Sissons, Sanderson, Emmerson, Ferland, Hanson, Donnelly, McCulloch.

The CHAIRMAN: We shall now proceed with page 3.

Mr. ARMSTRONG: Page 3 shows—

Mr. BLACK: Before we leave that may I refer to the figure of \$207,000,000 which appears here and is said to be operating expenses. What were the operating expenses for the previous year? We have it on the record, but I should like to have it now.

Mr. ARMSTRONG: \$182,966,000.

Mr. BLACK: I wonder if we can break down that difference of about \$24,000,000.

Mr. ARMSTRONG: As to where it occurs, sir?

Mr. BLACK: Yes.

Mr. ARMSTRONG: We have it on the record now, the comparison between the 1940 estimate and last year's actual.

Mr. BLACK: Now, I want to make one observation and it is contrary to some of the arguments that we have been making. My observation is that the railway in some of its purchases, especially in the Maritime provinces, have not given due consideration to the increase in the cost of production and the increase of certain basic commodities produced, at least, in the Maritime provinces. I refer to the prices paid for ties and the prices paid for coal. I do not feel that the prices paid the lumbermen in Nova Scotia, at least, have been fair, having regard to the increase in cost and the increase in the prices of other lumber products. The same thing applies to the amount paid for coal. The cost of producing coal, especially in the smaller mines, has increased very materially. There has been a very, very small margin to the operators of these mines in supplying coal to the railways, which is the back log of some of these mines. Until very recently there has been no increase in the amount paid for ties. While there has been an increase of 20 or 25 per cent in the prices paid for other lumber products there has been a negligible increase in the prices paid for ties. The same applies to coal. I should like to hear from the management their justification for paying such small prices to the basic producers of such commodities.

Mr. VAUGHAN: I think in the first place it is incumbent upon us to buy our material as cheaply as we can and operate the railway as economically as we can. Everything is more or less competitive, and as it is now the price of coal in Nova Scotia exceeds greatly the price in other provinces. As a matter of fact, some of the mines in Nova Scotia have had increases. I am not aware at the present time that there is any general dissatisfaction in the province of Nova Scotia in respect to the price paid for coal.

Mr. BLACK: What has been the recent increase? What is the price paid to-day for coal in comparison with the prices paid a year ago and when did this increase go into effect?

Mr. VAUGHAN: While I feel, of course, this committee must get all the information it desires, my position is this: we must negotiate for this coal. We have given some mines increases but have not given other mines increases. If we come out here and tell everything we are doing in that connection every operator who did not get an increase, whether justified or not, is going to ask for that increase. We have given some mines down in Nova Scotia an increase of 25 cents a ton effective as of the 1st of May. Other mines have not been given an increase; some have not asked for any—many of them have not asked for any.

Mr. BLACK: They are at your mercy.

Mr. VAUGHAN: A man can always ask for an increase if he feels that it is justified, but that does not say he will get it unless we think it is justified.

Mr. HANSON: Mr. Chairman, the same thing applies in British Columbia as far as ties are concerned. But the trouble is the number of ties cut in British Columbia is just about 25 per cent more than the market requires. Notwithstanding that the producers have kept on producing a surplus of ties every year and banking on the railway company to take them; they are still doing it. It is impossible to blame the railway company for not raising the price as long as they get that commodity at the price they are paying for it. I wish there was some way, Mr. Chairman, that this situation could be rectified. It is the producers, own fault, in my opinion. The same thing applies with regard to coal in British Columbia. They are prepared to sell it for the price that they are offered, and they are prepared to produce it. You cannot expect anybody who is in the market for a commodity to pay more than he can get the commodity for. What would we say in the railway committee, for instance, if the management went out and offered me more for my commodity than I could get from the open market? You, Mr. Chairman, or somebody else would be complaining about it. The purchasing department of the railway is trying to run their department as cheaply as possible and buy as economically as possible, the same as we are all doing.

Mr. VAUGHAN: So far as the price of ties in Nova Scotia goes I think that question came up the other day. I stated we pay the maximum price in Nova Scotia. No other province in Canada gets a higher price than Nova Scotia. It gets the maximum price for ties. In some provinces we buy ties at considerably less than the price paid for ties in Nova Scotia. Those prices were all set last August or September, which is the time we order our ties and go into the market for ties. Some of these ties are only being delivered now on those contracts.

Mr. BRADETTE: Why would you pay more for ties in Nova Scotia than anywhere else?

Mr. VAUGHAN: There, again, it is a question of supply and demand. There are certain grades of ties in the Maritime provinces that are not as plentiful as in Ontario and some other provinces.

Mr. BRADETTE: I do not think there is much criticism there, if the C.N.R. is getting its ties at the same price as is paid by other railroads. There are certain laws within the provinces to protect men who produce these ties, so the C.N.R. should be protected too on that score.

Mr. BLACK: What is the approximate increase in the amount paid for ties for 1940 delivery in comparison with the 1939 delivery?

Mr. VAUGHAN: I do not know whether I have that figure here or not. In some districts there was no increase at all. There was a small increase in Nova Scotia; I do not remember just what it was off-hand.

Mr. JACKMAN: While we are waiting, I should like to ask a simple question. Is it true that this railway has to buy certain of its supplies in certain parts of Canada at a price higher than they would pay otherwise because of political factors? I suppose that is a very simple question for a new member to ask

Mr. VAUGHAN: I can answer that very emphatically, no; we never pay any attention whatever to the political exigencies of any part of the country in respect to the purchase of our supplies, nor are we governed by political influence in any way in regard to the purchase of our supplies. We buy them wherever we can to the best advantage.

Mr. McCULLOCH: I think I can back Mr. Vaughan up in that statement because I have a great deal to do with it in my district. I have never found that politics entered into the matter at all.

Mr. JACKMAN: I am not trying to saddle anything on the present administration; I just want to know about the carrying on of a government railway. Mr. Vaughan did mention that a higher price was paid—that Nova Scotia received as high a price—

Mr. VAUGHAN: Yes, I did not say "higher price."

Mr. JACKMAN: —that Nova Scotia received as high a price as any other part of Canada for its ties. Certainly one might have drawn the inference from the price paid for coal that an effort was made to keep certain communities alive and where the effort might not have been made if it had not been purely a government-owned enterprise. I am very glad to hear from Mr. Vaughan that everything is done on a strictly businesslike basis with no influence of a political character.

The CHAIRMAN: Have you the next answer in reply to Mr. Black's question?

Mr. VAUGHAN: There was no difference between the price paid in Nova Scotia or New Brunswick between 1938 and 1939.

Mr. HARRIS: You do give consideration to those firms which give a good deal of freight to the railways as compared with firms of a fly-by-night character which do not give the railways any freight?

Mr. VAUGHAN: That would undoubtedly be so providing everything else was equal. Naturally we do everything we can to get all the business we can, and it is only reasonable that we would do business with those firms which do business with us, so long as their price and quality are satisfactory.

The CHAIRMAN: Are there any other questions in regard to page 2?

Mr. BLACK: I consider that the price paid for ties to producers in Nova Scotia is not sufficient. The price of lumber increased 20 to 25 per cent per thousand, and the producers of ties cannot possibly deliver them at a profit at the price which they are being paid. There is no justification for them conducting business on the 1939 price.

Mr. VAUGHAN: Our position, Mr. Black, is that we are able to get all the ties we need at the price we are paying.

Mr. DONNELLY: Are your prices lower than the prices paid by the C.P.R.?

Mr. VAUGHAN: Our prices are pretty much on a par with the C.P.R. In fact, we discuss the tie situation with the C.P.R. each year in respect to prices to be paid each province before we let our contracts.

Mr. DONNELLY: Practically speaking, all the ties that are needed in Nova Scotia are contracted for?

Mr. VAUGHAN: Yes.

Mr. BLACK: I would say that the producers of ties in Nova Scotia will go out of business unless they have some assurance that a fair price will be available to them.

Mr. VAUGHAN: Well, we will soon be negotiating again for our ties for next year.

Mr. BLACK: You really set the price, do you not, and it means that they must either accept or refuse the business?

Mr. VAUGHAN: That is true. We fix a price which we consider is a fair price. On the other hand, if it is more profitable for the tie producers to saw their logs into lumber, they naturally would do so rather than turn them over to us in ties.

We get various prices. It depends upon the size of tie and kind. The maximum price we pay in Nova Scotia for a hardwood tie is seventy cents. That is for the larger tie.

Mr. BRADETTE: Seventy cents f.o.b.?

Mr. VAUGHAN: Loaded on the cars, for a hardwood tie.

Mr. BLACK: What is paid for hemlock and pine ties?

Mr. VAUGHAN: That would be a number 2 hardwood tie, six by eight. The number 1 tie is seven by nine. We do not get any number 1 hardwood ties in Nova Scotia because the timber is not large enough.

Mr. BLACK: What is paid for hemlock and pine ties?

Mr. VAUGHAN: I think it was sixty-eight cents. That is for the larger tie—seven by nine. For a six by eight we pay sixty-three cents. For a smaller tie, six by six, we pay twenty-five cents.

The CHAIRMAN: I would like to suggest, gentlemen, that you are not likely going to settle this tie business here, and we are not getting very far with the work of the committee.

Mr. HARRIS: We are getting very far. I object to that. I very, very strongly object to that. This committee, Mr. Chairman, for your information, is getting along much faster and making much more progress than any committee it has been my pleasure to sit on since the year 1921.

The CHAIRMAN: I am very glad to hear that.

Mr. HARRIS: I congratulate the chair on making such progress.

Mr. HANSON: I wonder if Mr. Vaughan would give us the price paid for ties in British Columbia.

Mr. VAUGHAN: The maximum price we pay in British Columbia is fifty-two cents. We pay a lower price on Vancouver island. On the mainland, for six by eight ties we pay forty cents. For the smaller tie we would pay twenty cents.

Mr. JACKMAN: Does that not go back to my previous question? Why do you buy these Nova Scotia ties?

Mr. VAUGHAN: For this reason: We could not haul ties from other provinces into Nova Scotia; it would be too expensive.

Mr. JACKMAN: On your own railroad?

Mr. VAUGHAN: We can not have them for nothing. We figure our actual out-of-pocket expenses in arriving at the delivered cost of all the commodities we buy.

Mr. JACKMAN: One reason I addressed my previous question to you was that I understood in Fernie, British Columbia, they were paid about twenty-five cents more per ton for coal than the adjoining city. One city was about to pass out of the picture pretty well because of the business not being as profitable as formerly. In order to prevent that and to prevent the town going on relief I think probably both railways may have agreed to pay a little more per ton and thus keep the community alive. I was speaking only from general knowledge of the situation, and I should think that such a proceeding on the part of the railways would be quite justifiable. I should like to know if what one might call a political or humanitarian influence was working in such a large enterprise as this railway and perhaps the C.P.R. also.

Mr. VAUGHAN: I think the only justification we would have for keeping a mine going would be if we needed the coal in the future. We could not keep a mine going from a humanitarian standpoint. We try to be humanitarian in all our dealings, and I think we are. But we feel that where the Canadian National Railways is concerned we have got to be a bit hard-boiled. We get a lot of criticism from the gentlemen here, and we have to be able to meet that. It is fair criticism and we welcome it.

Mr. HARRIS: Constructive criticism.

Mr. VAUGHAN: In Alberta, the C.P.R. and ourselves pay the same price for coal. They are served by mines in the south; we, by mines in Northern Alberta. Some of the mines on our line are demanding an increase in price.

Mr. JACKMAN: Take the newsprint companies, they have to distribute their tonnage to various places in order to keep communities alive, and it would not be surprising or even a matter subject to criticism if the railroads did it. I should like to know if they do it.

Mr. VAUGHAN: They can adjust the selling price of their commodity based on the price of the raw materials; we cannot do that. We have to watch our purchases very carefully.

Mr. JACKMAN: I do not think the newspaper manufacturers would agree that their prices could more easily be raised than yours.

Mr. VAUGHAN: They are subject to adjustment while ours are not, or which is very seldom the case.

Mr. BLACK: The price paid by the railways for ties in Nova Scotia is less than \$17 per thousand. It is about \$16.50 for hemlock ties, and I say, Mr. Chairman, that that is too low a price. It is entirely out of line with the price paid in other parts of Canada.

Mr. BRADETTE: How much per thousand?

Mr. BLACK: About \$16.50.

Mr. VAUGHAN: There are about forty-two feet in a tie that we would pay sixty-eight or seventy cents for.

Mr. BLACK: A six by eight would represent thirty-two feet, and the price, you said, was fifty-three cents?

Mr. VAUGHAN: That is right. There are forty-two feet in the larger tie.

The CHAIRMAN: If you are through with page 2 we will go ahead with page 3.

Mr. ARMSTRONG: The estimated capital expenditures are listed under the following headings.

Atlantic Region	\$ 2,609,559
Central Region.. . . .	1,992,859
Western Region.. . . .	2,525,046
Grand Trunk Western Railroad Company. . . .	559,020
Central Vermont Railway, Inc...	152,001
Hotels.. . . .	80,000
Montreal Terminals Development.. . . .	3,350,000
Prince Edward Island Car Ferry and Terminals..	19,700
Subsidiary Companies.. . . .	412,713
General, including Additions and Betterments to Equipment.. . . .	2,123,502
	<hr/>
	13,724,400
Less Equipment Retirements.. . . .	9,075,400
	<hr/>
On a net capital expenditure of.. . . .	4,649,000

Mr. EMMERSON: On that Atlantic region, can you break down the capital expenditure?

Mr. ARMSTRONG: Yes; they are made up in budget form. They consist of a very great number of items, probably several hundred items.

Mr. BLACK: What are the items about, those between \$50,000 and \$100,000?

Mr. ARMSTRONG: They include improvements at Moncton . . . Would you like the items with the amounts?

Mr. BLACK: Yes; I should like to have the appropriations, say, in excess of \$100,000.

Mr. ARMSTRONG: There is an item at Moncton for a new locomotive erecting shop estimated at \$300,000.

Mr. EMMERSON: \$300,000?

Mr. ARMSTRONG: \$300,000. That is the estimated capital expenditure for 1940.

Mr. EMMERSON: That is for a locomotive erecting shop?

Mr. ARMSTRONG: Yes. That is the amount shown in the budget for 1940. That is the amount which it is estimated will be expended in 1940.

Mr. EMMERSON: That is the estimate of the building?

Mr. ARMSTRONG: That is not the complete works.

Mr. HUNGERFORD: That is a matter that is under consideration at the present time. The total estimate for this shop is \$835,000.

Mr. EMMERSON: Does that take into consideration the new heating system?

Mr. HUNGERFORD: Everything that goes with it, yes. But, owing to conditions, no more than \$300,000 will be spent this year. It is a job that will be carried over for two years.

Mr. EMMERSON: Is there an item in there for the electrical control between Moncton and Truro?

Mr. ARMSTRONG: The item is in the budget, but the question of how much of it will be expended in 1940 is now under consideration. There is an item in here for additional terminal facilities, line trackage, signalling and possibly centralized traffic control. The total item amounts to \$1,000,000.

Mr. HUNGERFORD: The situation is that at the outbreak of war we had to give consideration to increasing the carrying capacity between Moncton and Truro particularly, and a considerable amount of work was done last fall in the way of additional passing tracks and making some more or less limited yard improvements. There was not time, however, to carry on any major work. This year we are improving the yard at Moncton and enlarging it and making use of a portion of the old transcontinental yard.

Mr. BLACK: What is the estimate for that?

Mr. HUNGERFORD: We are making similar improvements at Sackville and Truro, and we are doing a certain amount of terminal work at Halifax. We are building a new engine house in the proper location at Halifax in order to facilitate business. We made a study of what is known as centralized traffic control between Moncton and Truro, but we came to the conclusion that the expenditure was too great to warrant it inasmuch as the main factor down there is the capacity of the Halifax port facilities. While the item stands in the budget as \$1,000,000, probably some of the money will be used for track facilities and things of that kind, and the major portion of it will not be spent. Under war conditions we thought it was necessary to have a contingent fund to take care of possible requirements.

Mr. BLACK: But that centralized traffic control will not be put into effect?

Mr. HUNGERFORD: That is the present decision, not to put it in this year.

The CHAIRMAN: Next?

Mr. BRADETTE: Mr. Chairman, with regard to the last item, general, including additions and betterment of equipment, could we get a brief statement of what that would be?

Mr. BLACK: I should like to finish this \$2,509,000 item. May I ask Mr. Hungerford what the policy of the railway is with respect to completing the double tracking of the Canadian National Railway from Moncton to Halifax?

Mr. HUNGERFORD: Well, that was thoroughly studied. The expense would be very, very great; and it would provide a capacity again in excess of the port facilities. Furthermore, it would take too long, and the mere fact of double tracking would interfere with the use of the single track line under heavy traffic conditions, so that was ruled out. The centralized traffic control would be cheaper and could be installed without interfering with traffic; and it would increase the capacity of the line to about double.

Again, there is no use in spending money to increase the capacity of the line between terminals when the terminal facilities will handle only a certain amount. In other words, you can only justify the spending of money to make improvements so that your terminal facilities or your line facilities will be in balance and be able to handle approximately the same amount of traffic. What we actually did last winter between Moncton and Truro was to handle substantially twice as much business as we did during any corresponding period in the Great War of 1914-18.

Mr. BLACK: Twice as much?

Mr. HUNGERFORD: Practically.

Mr. BLACK: There was some congestion was there not?

Mr. HUNGERFORD: There was a heavy load there, but we carried it successfully and there were no serious delays. Perhaps the most troublesome delay was in connection with the accumulation of wheat and flour at Halifax in the terminal. We propose this winter to hold that back, perhaps, and feed it in there as required.

Mr. EMMERSON: Will that involve the use of Saint John to a greater extent than has been the case in the past?

Mr. HUNGERFORD: Well, that remains to be seen.

Mr. EMMERSON: If you cannot handle the traffic through the port at Halifax, would that not follow?

Mr. HUNGERFORD: Well, it is a question of how much can be handled there. It depends on shipping and things beyond our control. I can say this to you, that we believe that with the facilities that we are constructing this year,—the improvements that we are putting in this year,—quite apart from the centralized traffic control which is not going in, we will be able to handle pretty nearly double what we handled last winter, if we are required to do so this winter.

Mr. BLACK: Does that refer to the Moncton-Truro section of the line?

Mr. HUNGERFORD: Yes.

Mr. BLACK: Do I understand from Mr. Hungerford that last year twice the traffic was handled between Moncton and Halifax as in the peak year of the last war, and that this year, for 1940-41, it is expected that twice the traffic can be handled that was handled in the last year, which would be four-fold of what it was in the peak year?

Mr. HUNGERFORD: That is right, except to this extent—and I referred to the line between Moncton and Truro—that a large amount of traffic that we handled between Truro and Moncton last winter was coal and steel coming from Sydney and moving into upper Canada.

Mr. BLACK: Have you figured an estimate for double track between Moncton and Halifax? You said it was a very large expenditure.

Mr. HUNGERFORD: I have not the figure in mind at the moment, no. I could not tell you.

Mr. BLACK: The railway would have an estimate of it.

Mr. HUNGERFORD: Yes, I think we have.

Hon. Mr. HOWE: About \$6,000,000, as I remember it.

Mr. SMART: It is more than that.

Hon. Mr. HOWE: The Colonel says it is \$9,000,000. I am wrong.

Mr. HUNGERFORD: The worst feature about that, as I explained before, is that the double tracking of a line under heavy traffic conditions would interfere with traffic to such an extent that we could not contemplate it under war conditions.

Mr. BLACK: As regards the line from Sydney to the mainland, I have heard it said that it is poorest line in North America, having regard to the amount of traffic it carries.

Mr. HUNGERFORD: We could say this, that it was a poorly located line in the first instance, with a great deal of curvature, an excessive amount. But the limiting factor of that line from Sydney to the south of the Strait of Canso is the carrying capacity of the ferry across the strait. We propose to make some improvements on the line between Truro and Sydney this year in the way of additional passing tracks or longer passing tracks, but only to the extent to balance the capacity of the line facilities with the capacity of the ferry to get the traffic across the strait. There would not be any object in going beyond that. It would be a waste of money.

Mr. BLACK: But the operation of the railway there is very expensive, having regard to the grades and the curvature, is it not?

Mr. HUNGERFORD: Yes.

Mr. BLACK: In relation to the traffic that it has to carry?

Mr. HUNGERFORD: The only way that you could improve that line would be to practically rebuild it—build a new railroad.

Mr. BLACK: Has a general estimate been made as to the cost?

Mr. HUNGERFORD: No.

Mr. BLACK: Of modernizing that line?

Mr. HUNGERFORD: No. It would cost more money than the volume of traffic would warrant. I am sure of that. Let me explain that the line is in good physical condition, but it is not of a good character. It has altogether too many curves and heavy grades.

Mr. BLACK: There is a large number of accidents on that line, is there not?

Mr. HUNGERFORD: I beg your pardon?

Mr. BLACK: There is a large number of accidents on that line, is there not?

Mr. HUNGERFORD: No, I would not say that.

Mr. McCULLOCH: What is your business on that line?

Mr. HUNGERFORD: I beg your pardon?

Mr. McCULLOCH: What is your increase in business on that line?

Mr. HUNGERFORD: I have not the figures here.

Mr. McCULLOCH: I understand it is much heavier than it was a year ago.

Mr. HUNGERFORD: Yes, very.

Mr. McCULLOCH: They have been breaking all records, I understand on that line.

Mr. HUNGERFORD: The ton mileage increased substantially in the month of May, as compared with May of last year. The ton mileage in May of this year was four times that of May last year.

Mr. McCULLOCH: Four times.

Mr. HUNGERFORD: Yes. But last year the traffic was not heavy. There was a heavy movement of coal last winter to upper Canada from that field.

Mr. BLACK: There is another thing I want to mention. I thought that the main justification for the Guysborough branch line was that it might be used for carrying through traffic from Cape Breton. Has any consideration been given to completing that line and making it the line for the through traffic from Cape Breton?

Mr. HUNGERFORD: The line would not serve the purpose unless it was extended to Sydney.

Mr. BLACK: Yes, extended to Mulgrave.

Mr. HUNGERFORD: It would be a large amount.

Mr. BLACK: Has consideration been given to it?

Mr. HUNGERFORD: Again you would have to multiply the facilities across the Strait of Canso to take care of it.

Mr. BLACK: I presume the railway has given consideration to that suggestion?

Mr. HUNGERFORD: Of extending the line through to Sydney?

Mr. BLACK: No, completing the Guysborough line so that it will carry the through traffic, making a modern line of it, a modern railway, to carry the traffic from Cape Breton, from Mulgrave to Stellarton.

Mr. HUNGERFORD: I do not think any consideration has been given to that recently. There is not the volume of traffic.

The CHAIRMAN: Mr. Bradette had a question.

Mr. BRADETTE: Mr. Chairman, I should like a brief explanatory statement of the last item, "general, including additions and betterment to equipment, \$2,123,502." What will that include, in a general way? Is that all equipment or what?

Mr. HUNGERFORD: Every time a locomotive or car goes through the shop, it is advisable to add something to it in the way of an improvement, and the charge is made against capital account. It is something that is a little bit better than what was on the unit before, and actually that amount is used up in a multitude of small sums, a few dollars per unit.

Mr. BRADETTE: I see no item about insurance. Does the C.N.R. system carry its own insurance for equipment of any kind?

Mr. ARMSTRONG: The C.N.R. carries its own insurance in a general insurance fund.

Mr. BRADETTE: Entirely its own fund?

Mr. ARMSTRONG: That is fire insurance.

Mr. BRADETTE: Fire, accident and destruction of property?

Mr. HUNGERFORD: Not accident insurance, no.

Mr. BRADETTE: I mean, when you have a derailment.

Mr. HUNGERFORD: That is simply charged to operating expenses.

Mr. ARMSTRONG: In effect, it carries its own insurance in paying for accidents as they occur.

The CHAIRMAN: Next point? Shall we go on to page four?

Mr. ARMSTRONG: At the bottom of page three there is a list of new equipment totalling \$1,665,000. Shall we go on to page four?

The CHAIRMAN: Yes.

Mr. EMMERSON: May I go back for a moment? There is just one item in connection with which I should like to ask. It is a small item of \$19,700 for the car ferry and terminals, on page three. Is that on the ferry, one or other of the ferries, or is it on the docks?

Mr. ARMSTRONG: It covers principally the unexpended balance from the previous year for the strengthening and crib bonding of bursting short-arm pier. The total cost was \$43,000, of which this is the balance. It is at Cape Tormentine.

Mr. HUNGERFORD: It is in connection with the piers.

The CHAIRMAN: Page four.

Mr. HARRIS: On page three, Mr. Chairman, we were going to get a little more explanation of that \$3,350,000 item. How much of that is expended so far?

Mr. ARMSTRONG: The expenditure—

Mr. HARRIS: Could you give us to the end of the first three months, March 31, and then the three months ending June 30.

Mr. ARMSTRONG: I am not sure that I can give you to the end of March. Our figures are on the calendar year basis, as you know. You want the expenditure, as I understand it, from January 1st to March 31st, 1940?

Mr. HARRIS: Yes.

Mr. ARMSTRONG: We have not that figure readily available.

Mr. HARRIS: For what period is this \$3,350,000?

Mr. ARMSTRONG: This \$3,350,000 is what we budgeted for the calendar year 1940.

Mr. HARRIS: How much of that is expended up to March 31st?

Mr. ARMSTRONG: I cannot give you up to March 31st.

Mr. HARRIS: I just want an estimate.

Mr. HUNGERFORD: We can get it.

Mr. HARRIS: There was a national event on March 26th. That is the reason I mentioned March 31st.

Mr. ARMSTRONG: We have spent for the first six months, from January 1st to June 30th, \$1,184,000.

Mr. BLACK: How much?

Mr. ARMSTRONG: \$1,184,000.

Mr. HARRIS: \$2,200,000 you purpose to spend in the next six months?

Mr. ARMSTRONG: That is the expense chargeable to the last six months.

Mr. HARRIS: Would the management consider slowing down on that, Mr. Chairman? Would the management give some consideration to slowing down on that expenditure during war time?

Mr. HUNGERFORD: No. The directors have not seen fit to do that yet.

Mr. HARRIS: That is the considered opinion of the management, Mr. Chairman, is it?

Mr. HUNGERFORD: Well, there has been no consideration given to that.

Mr. HARRIS: Would they give consideration to it, Mr. Chairman?

The CHAIRMAN: Gentlemen, if we would all speak just a little louder, it would be better. Personally, I do not like to be profane but I have a hell of a time hearing what goes on in this room.

Mr. HARRIS: Mr. Chairman, it has been deposed here that we have spent \$1,100,000 and the budget calls for \$3,350,000. We have a six months in front of us now. Inasmuch as we have spent so far this year only \$1,100,000, would

the management give consideration to the slowing down of expenditure for the balance of this calendar year or at least keep it within the confines of the first six months expenditure?

The CHAIRMAN: I should like to congratulate the speaker, anyway, because I was able to hear him on that occasion.

Mr. HUNGERFORD: We have commitments now in effect as of July 1st for \$1,865,000, for the balance of the year.

Mr. HARRIS: That means, Mr. Chairman, that we are committed for another \$1,800,000. That leaves only \$400,000 to be further committed before the end of December. I will ask this question: Will those contracts or commitments expire previous to December 31, 1940?

Mr. HUNGERFORD: No.

Mr. HARRIS: What part of the \$1,800,000 will expire in the present year?

Mr. HUNGERFORD: That is the estimated expenditure for the balance of the year.

Mr. HARRIS: For the balance of this year?

Mr. HUNGERFORD: Yes.

Mr. HARRIS: We will not spend the \$3,350,000. We will be short about \$400,000.

Mr. HUNGERFORD: I do not understand that.

Mr. ARMSTRONG: The commitments are \$1,865,000, of which approximately \$600,000 applies to carrying on contracts in the next year. There is about \$1,265,000 in those commitments which applies to the 1940 programme.

Mr. HARRIS: Then there is \$600,000,000 that is in the 1941 programme.

Mr. HUNGERFORD: \$600,000, yes.

Mr. HARRIS: And there is another \$400,000 which you are not committed to spend yet.

Mr. HUNGERFORD: That would be correct.

Mr. HARRIS: Then there is \$1,000,000 that you are not committed to spend at the moment?

Mr. ARMSTRONG: It is anticipated expenditure but not committed for.

Mr. HARRIS: In view of the general difficult situation which we are in, would the management give consideration to the avoidance of spending that money? Is it essential that it shall be committed for or contracted for or spent during this calendar year?

Mr. HUNGERFORD: Well, we can get consideration of anything, as far as that is concerned.

Mr. MACINNIS: What condition will the work be in at the end of the year; that is, towards completion? How near or how far from completion will it be?

Mr. ARMSTRONG: The estimated amount to complete is, roughly, \$6,000,000—\$5,976,000—after the commitments which we have already mentioned have been fulfilled.

Mr. HUNGERFORD: If the work was carried out, it should be available for use a year from this fall.

Mr. BRADETTE: According to the newspapers of Montreal and the province of Quebec, that work is absolutely necessary for the war activity. If that is true, I do not see why there should be any curtailment of that work of going ahead at the present time. I do not belong to Montreal or even to the province of Quebec, but Montreal is the metropolis of Canada. I remember when they tore down the old union station in Toronto. We would have been satisfied in our section to have had that station in existence for many years. But we were also satisfied to have Toronto go ahead with their union station. At the present

time we need that terminal for war activities, and I do not see for the life of me why we should jeopardize the chance of having that work completed next year. It might be the best thing they could do. That is my personal opinion on that matter.

Mr. HUNGERFORD: Well, the completion of these facilities would help the movement of freight.

Mr. BLACK: Mr. Chairman, how much has been expended by the railway on these terminals up to the beginning of 1940; how much will be expended during 1940—we have that before us—and what is the amount needed to complete this building?

Mr. ARMSTRONG: The expenditure to the end of 1939 was \$19,625,000; the expenditure in 1940 to the end of June was \$1,184,000; the commitments as of July 1st, 1940, are \$1,866,000; that is a total of \$22,675,000; and the estimated expenditure to complete is \$5,976,000, a grand total of \$28,650,000. Those thousands may not add quite properly but they are substantially correct.

Mr. BLACK: What have been the curtailments in the present plan in relation to the original plan? I understand there has been a very substantial curtailment and a reduction in the cost over what was originally proposed.

Mr. HUNGERFORD: Some features are not being gone ahead with at all. There was to be a big yard; experience has shown we can get along without that. It was intended for use in connection with the harbour—and various features of that kind.

Mr. BLACK: There has been no curtailment then as regards construction of the terminal proper.

Mr. HUNGERFORD: Only to this extent, that originally it was intended to put up a central office building which would have cost quite a lot of money and which would have accommodated the clerical staff of the railways. At that time the clerical staff in Montreal was scattered around in eighteen different buildings. However, since then, we have decided to, and have actually used a great portion of the viaduct in connection with the new terminal. We have used it now for several years for the accommodation of the clerical staff. So that the office building is not contemplated at all, excepting that it is proposed to put two storeys on top of the station concourse for the accommodation of purely local Montreal staff, not the headquarters staff at all.

Mr. BLACK: Are the foundations being constructed so that they will carry a building as originally proposed, eventually?

Mr. HUNGERFORD: A building could be placed there at any time in the future. The foundation is bed rock and provision is made for putting columns down to carry any kind of a building the future may demand. Nothing is contemplated so far as the railway is concerned.

Mr. BLACK: What was the estimated cost of that building?

Mr. HUNGERFORD: We do not know what kind of a building it would be.

Mr. BLACK: You would no doubt have had a building design in your original scheme.

Mr. HUNGERFORD: There is no building contemplated. There is a space that we can leave until we want to put up a building. As a matter of fact, over the terminal there is space, ground space, amounting to about 600,000 square feet. That will be available to lease to anyone who wants to put up a building over the railway itself. That is what the New York Central did in New York in connection with their Grand Central terminal, and prior to the depression the net result was that they were getting an income in rentals from such development representing about three-quarters of a million dollars above their entire fixed charges for their own terminal facilities. We do not contemplate anything like that in Montreal, or any great development in the near future, but the possibility is there.

Mr. BLACK: The last time I was in New York I saw a great many "to rent" signs in that area.

Mr. HUNGERFORD: I think their income is probably less now; it has been during the depression undoubtedly, but nevertheless they made a lot of money.

Mr. BRADETTE: I would like to ask Mr. Hungerford, since they started that work at the terminal two years ago has there been any renewed approach from the C.P.R. to have a joint terminal there?

Mr. HUNGERFORD: Any approach from the Canadian Pacific?

Mr. BRADETTE: To have the two railways—there was something of that kind considered in the past I understand.

Mr. HUNGERFORD: There were discussions years ago in regard to it.

Mr. BRADETTE: Have there been any new discussions within the last few years?

Mr. HUNGERFORD: No. The facilities that we are building at the present time are to meet the immediate and reasonable requirements of the Canadian National Railways. They could be extended but there is no suggestion of that kind.

Mr. HARRIS: Is all the expenditure an attempt to do away with the so-called bottle-neck in respect to tonnage that is being handled around the port of Montreal; the minister referred to a bottle-neck on one occasion.

Mr. HUNGERFORD: Mr. Harris, I do not think it would be possible to give a short answer to that, there are so many different things involved. It is possible that you do not fully appreciate the fact that the institution of the Montreal terminal as now contemplated arose out of a grade-crossing elimination job. Before the war the board of railway commissioners of that time had issued an order requiring the Grand Trunk to elevate their line of railway from Bonaventure for a considerable distance, and down to Point St. Charles. With the outbreak of the Great War that work was suspended and not gone on with, and then the Grand Trunk of course gravitated into the hands of the government. At that time there was a great deal of agitation about the number of level crossings in that portion of the city. There were a great number of them and they were heavily travelled. Along about 1927 certain more or less public bodies in Montreal applied to the board of railway commissioners for an order requiring the Canadian National to abolish level crossings within the confines of the city. The board had a hearing and instructed their chief engineer to prepare a report on the whole situation and in turn the chief engineer representing and acting on behalf of the board demanded that we file a plan showing how we would eliminate or alleviate the grade-crossing situation in the city of Montreal. We had been making studies but had no intention of dealing with them at that time, and came to the definite conclusion that this was far and away the best solution of a very difficult situation; and when the board demanded that we file plans, well, that is what we did. But it started as a grade-crossing elimination project. Over and above that, however, as you probably know, the Canadian National found itself with four separate stations in the city of Montreal, terminal stations, each one at the end of a line with almost no connection between them, and the new terminal was developed to consolidate these operations into one station. The present development will bring the business of three stations into one. The fourth for the present will not be brought in, but the volume of business there represents only above five per cent of the whole and we do not feel justified in doing anything about it for the time being. In regard to the so-called bottle-neck, the separation to the extent that it will be accomplished with respect to passenger and freight business will not be a complete separa-

tion, but it will do a good deal to facilitate the free flow of freight through the Montreal terminals where there is a very heavy volume of traffic. We have a material advantage in that position.

Mr. HARRIS: What is the expenditure in 1937 and 1938; I have not the figures.

Mr. ARMSTRONG: The modified plan really started in the fall of 1938. The expenditures in 1937 and 1938 were certainly less than \$75,000, for either year.

Mr. HUNGERFORD: After the work was closed down in 1931 and settlements were made with the contractors and others there was no money spent on it until the resumption of the work in the latter part of 1938, in fact, in the beginning of 1939, excepting a small amount to settle some outstanding land claims and to make small physical improvements in connection with this space in the viaduct that was used for our clerical quarters. Incidentally, the placing of the clerical staff in this structure saved us \$185,000 a year in office rental.

Mr. BLACK: Mr. Chairman, do I understand this figure of \$22,675,000 represents only the expenditures made by the Canadian National railway or does it include other appropriations?

Mr. ARMSTRONG: That is the total cost, sir, as I should have pointed out. That includes the vote under unemployment relief.

Mr. JACKMAN: How much is that vote?

Mr. ARMSTRONG: In this figure of \$28,651,000, \$1,500,000 represents unemployment relief to date.

Mr. JACKMAN: Could one say that the \$1,500,000 is not properly chargeable to the station?

Mr. ARMSTRONG: It depends entirely upon the point of view.

Mr. JACKMAN: I suppose there was useful work done in the station and due economy was exercised; it was not just a creation of work in order to keep these men employed. There was useful work done for each dollar spent?

Mr. ARMSTRONG: It is fair to say there is a million and a half dollars worth of value for the million and a half dollars spent.

Mr. JACKMAN: To the railway?

Mr. ARMSTRONG: To the railway.

Mr. BLACK: I would like to ask, Mr. Chairman, if any application for consideration has been submitted by the Canadian Pacific Railway Company in the last three years looking to a union station in Montreal or changing the construction that has been under way so as to make it suitable for a union station in Montreal such as is at present in Toronto.

Mr. HUNGERFORD: No.

Mr. BLACK: No such proposal?

Mr. HUNGERFORD: No.

Mr. HANSON: That proposal has come up in the committee every year for some time.

Hon. Mr. HOWE: It was discussed before this committee a year ago. Mr. Hungerford says no proposal was made to the railway direct, as I understand it.

The CHAIRMAN: If the committee is through with page 3 we will proceed.

Mr. ARMSTRONG: Page 4 shows expenditures totalling \$590,000 covering the acquisition of securities. For Toronto Terminals Railway Company, the Canadian National expenditure is estimated at \$128,000. The next is Northern Alberta Railway; the C.N.R. proportion of expenditure is estimated at \$338,000. In connection with the Chicago and Western Indiana Railway Company the expenditure is \$124,000.

The CHAIRMAN: We shall turn to page 5 if there are no questions.

Mr. HARRIS: I should like to ask the management if the Toronto terminal arrangement is working out satisfactorily to the Canadian National Railways?

Mr. HUNGERFORD: The Toronto terminal, yes, on the whole.

Hon. Mr. HOWE: May I ask what that terminal cost?

Mr. HUNGERFORD: Speaking from memory I think it represented a cost to the various interested parties of a little over \$40,000,000.

Mr. JACKMAN: I suppose that would include what you might call interest during construction and interest during unused years when it laid there and no use was made of it. For seven or eight years there was nothing done with it except it was an ornament to the city. Have you included interest on interest during that period? If you have it would add very substantially to the initial cost of it. I presume that figure of \$40,000,000 would include that figure of interest.

Mr. COOPER: There was a charge to the total cost for interest during construction, but not for the full period. When they reached a point where it was considered the interest charge was sufficient the interest was discontinued—further interest was discontinued.

Mr. JACKMAN: After it was completed for a while you had to charge interest and then you stopped; is that it?

Mr. COOPER: With all big projects, I may say, it is the practice to charge interest during construction. Interest during construction is well recognized as an element of cost, and so with the Toronto Terminal. That company began to charge interest during construction but when it was seen that the completion of the terminal was more or less indefinitely postponed the matter was considered and further charges were discontinued.

Mr. JACKMAN: Really there was not much accumulation of interest during many years of vacancy.

Mr. COOPER: I always thought the charge was a pretty stiff one; that is to say, in my personal opinion I thought it was a little too much but it certainly did not go on for the full period during which the work was suspended.

Mr. HARRIS: When was the work completed?

Mr. HUNGERFORD: I think in 1929 or 1930; I am not quite sure.

Mr. HARRIS: I want to have it on the record.

Mr. JACKMAN: That cost was, of course, borne in part by the C.P.R. and perhaps some by the T. & N. O.

Mr. COOPER: It is financed jointly by the Canadian Pacific and the Canadian National Railway on a fifty per cent basis.

Mr. JACKMAN: And no part at all by the T. & N.O.?

Mr. ARMSTRONG: Not the T. & N. O. The city of Toronto actually paid somewhere in the neighbourhood of \$5,000,000 in connection with the grade separation project.

Mr. COOPER: And the cost of the project to the Terminal Company was \$26,000,000.

Mr. HUNGERFORD: There is a distinction between the Toronto terminals property and the adjoining improvement that had to be made there. The railways individually, the Canadian Pacific and the Canadian National, both had to build certain improvements extending out from the terminal area. The Toronto terminal railway company is jointly and equally owned by the Canadian Pacific. When you speak of the Toronto terminals you are only speaking of that portion of the property, and the elevation of tracks and other improvements of that kind extended away beyond the limits of the Toronto terminals railway property. The cost of these improvements outside of the terminal area were borne by the parent companies.

Hon. Mr. HOWE: I wonder, Mr. Chairman, if there would be much objection in this committee to building a Toronto terminal.

Mr. HARRIS: The minister is very anxious to get a comparison between Toronto and Montreal. We are very anxious to sit here as members of parliament representing Canada.

Hon. Mr. HOWE: With a great interest in Montreal.

Mr. JACKMAN: The \$25,000,000 was borne by the Toronto terminal company and the other \$15,000,000 was borne by some other body,—what body was it that bore the \$15,000,000?

Mr. ARMSTRONG: The city of Toronto about \$5,000,000; the Canadian Pacific Railway about \$3,000,000; the Canadian National Railway about \$5,000,000, and the grade crossing fund about \$1,000,000, the Toronto terminal railway about \$26,000,000, making a total of \$40,000,000.

Mr. HUNGERFORD: The central area, including the station or the Toronto terminal railway company, cost \$26,000,000, and the additional expenditures were made at the expense of the parent companies to connect up with it.

Mr. HARRIS: I do not want to go on record as challenging the minister in regard to more attention to Montreal; that is furthest from my mind. Had it been in Port Arthur, the same observation would have been made. It is obvious that the matter running through our minds is that there is a war on and we have to conserve our cash.

Mr. BLACK: Before we leave page 3, Mr. Chairman, there is an item dealing with "Subsidiary companies—\$412,000." The particulars of that are not on record.

Mr. ARMSTRONG: The expenditures there are for various subsidiary companies of the Canadian National Railways. For example, here there are about twelve items in connection with the Montreal and Southern Counties Railway ranging from \$500 up to about \$10,000. Then there is an expenditure in connection with the Thousand Islands Railway of about \$5,000. There are about ten items in connection with the Niagara-St. Catharines & Toronto Railway totalling \$37,000. The Oshawa Railway, four items, totalling \$9,000. The Canadian National Transportation Ltd., three items, totalling \$90,000. The Muskegon Railway & Navigation Company, two items, totalling \$10,000. Those are subsidiary companies.

Mr. BLACK: How many subsidiary companies are there?

Mr. ARMSTRONG: They are not all here.

Mr. BLACK: How many subsidiary companies are there under the Canadian National Railway management?

Mr. COOPER: The system comprises 102 companies.

Mr. BLACK: Some of these companies would be like the Grand Trunk Pacific, would they, major units in the system?

Mr. COOPER: There are four major units.

Mr. SMART: The list will be found on page 22 of the annual report, Mr. Black.

Mr. BLACK: This last item—"General, including additions and betterments to equipment, \$2,123,000"—what is represented by that as capital expenditure?

Mr. HUNGERFORD: I tried to explain that a little while ago.

Mr. BLACK: That is on the record?

Mr. HUNGERFORD: Yes; incidental improvements to cars and locomotives as they are going through for repairs.

Mr. JACKMAN: The item underneath that for new equipment purchases of \$1,665,000 is an estimate of the equipment you intend to buy in 1940, is it?

Mr. ARMSTRONG: There is a note at the bottom of page 3 in regard to that item. It excludes the \$14,900,000.

The CHAIRMAN: Are you through with page 4?

Mr. JACKMAN: I wonder if I might ask one more question about the condition of the rolling stock generally. A man in whose opinion one might have some confidence said to me about a year ago that one had only to look at the roads of both railways in Canada to know that there was need for a great deal of replacement. Would you say that if the railways, both of them—I will not confine my remarks to the Canadian National—were in a more easy financial condition, they would be purchasing more new equipment and more rolling stock than they are purchasing to-day? Is the condition of the equipment as good as the operators of the railway would like to see it?

Mr. HUNGERFORD: I think that constitutes two questions. In the first place, so far as the physical condition of existing units is concerned, happily the Canadian National is in very good condition in that respect. The standard of condition of freight cars on American railways is about seven and a half per cent in bad order. That is recognized as being about a normal proportion to be in bad order.

Mr. BLACK: Seven and a half per cent of what?

Mr. HUNGERFORD: Of the total number of units.

Mr. BLACK: Seven and a half per cent?

Mr. HUNGERFORD: I am speaking of freight cars now, Mr. Black.

Mr. BLACK: What does the figure of seven and a half per cent represent?

Mr. HUNGERFORD: Cars that are in bad order or in a defective condition. As a matter of fact, the figure for the Canadian National Railway today is about four per cent. That is an extraordinarily good figure.

Our locomotive condition is not quite as good. We have only maintained a sufficient number of locomotives in serviceable condition during the period of the depression to meet the requirements of travel. That was sound policy. With increasing traffic we require more engines in serviceable condition and we are proceeding steadily to put them in. Passenger equipment, I think, is in a normal condition.

Mr. HANSON: I do not think the committee is here for the purpose of asking such questions.

Mr. DONNELLY: Would you explain the amount of \$124,000 for the Chicago and Western Indiana Railway Company?

Mr. HARRIS: While we are looking that up, Mr. Chairman, perhaps the honourable member for Skeena would tell us why we are here.

Mr. COOPER: The Chicago and Western Indiana Railroad Company owns the terminal in Chicago into which the Grand Trunk Western, which is a subsidiary of the Canadian National, operates. The Grand Trunk Western is one of five proprietary companies, that is, the Grand Trunk Western owns one-fifth of the stock, and the five proprietary tenants are responsible for the financing of the terminal company. The terminal company under an indenture of the first of March, 1936, made an issue of bonds which are secured by a lease under which the five owner and user companies are obligated to contribute each year as rent the interest on the outstanding bonds and one fifth each of the sinking fund payments which the bonds call for. \$124,000 is the payment to be made by the Grand Trunk Western in 1940 as its share of that sinking fund payment.

The terms of the agreement are such that the Grand Trunk Western on the termination or maturity of the issue will have turned back to it bonds of the Western Indiana equal to the sinking fund payments.

Mr. DONNELLY: What year do the bonds mature?

Mr. COOPER: 1962.

Mr. DONNELLY: 1952 or 1962?

Mr. COOPER: 1962.

Mr. HARRIS: Mr. Chairman, why does the management put the liability for the \$14,909,000 odd for the new equipment into the 1941 statement rather than into this statement, when the contracts for that particular equipment were negotiated during the year 1940?

Mr. COOPER: The equipment will be delivered during 1940.

Mr. HARRIS: The contracts were entered into in the year 1940?

Mr. COOPER: 1939.

Mr. HARRIS: 1939?

Mr. COOPER: Yes.

Mr. HARRIS: The liability will appear on the books in 1941?

Mr. COOPER: 1940.

Mr. HARRIS: 1940?

Mr. COOPER: Yes.

Mr. HARRIS: The budget of 1940?

Hon. Mr. HOWE: The first payment comes due in 1941, though.

Mr. HARRIS: The first payment is due in 1941. It is not in the budget of 1940.

Mr. COOPER: No payment is due in 1940.

Mr. HARRIS: And there will be no liability set up, Mr. Chairman, in the 1940 statement?

Mr. COOPER: Yes, there will. Full liability will be set up in the 1940 statement.

Mr. HARRIS: It will be set up in the 1940 statement for contracts made in 1939?

Mr. COOPER: Yes.

Mr. HARRIS: Then there is this other question. Is this not a departure from the usual way of buying equipment or contracting for equipment?

Hon. Mr. HOWE: It was done in 1932, I think it was. The government in that year purchased a number of locomotives and a considerable tonnage of rail and leased it to the railways on the hire-purchase basis. That is the precedent for this.

Mr. HARRIS: The capital sum is going to be retired in fifteen years. Will the locomotives and the equipment itself be retired in the same time?

Mr. HUNGERFORD: Oh, no; probably in thirty-five years or forty years.

Mr. HARRIS: Then there will be a surplus in that particular transaction at the end of fifteen years. You will have the equipment still.

Mr. HUNGERFORD: You pay off the principal amount in fifteen years.

Hon. Mr. HOWE: That is the way that equipment is bought. Practically all equipment is bought under the Philadelphia plan agreement that pays off the mortgage in fifteen years.

Mr. HARRIS: Not all the equipment since the inception of the road?

Hon. Mr. HOWE: No.

Mr. HARRIS: It is a very large item. The capitalization represents equipment, some of which has been on the go for forty years.

Mr. DONNELLY: I move that we adjourn, Mr. Chairman.

The CHAIRMAN: Before we adjourn, I should like to understand whether we meet tonight or not?

Mr. BLACK: I wonder if we could be informed at the next session what special additional appropriation will be required by the Canadian National

Railway to meet the expected payment by the railway to the unemployment insurance fund? I think we should have that at a later session.

The CHAIRMAN: We can make a note of that.

Mr. McCULLOCH: I move that we meet tonight at eight o'clock.

The CHAIRMAN: I will put it to the committee. All those in favour of re-assembling at eight o'clock, kindly raise their hands? There are seven. All those against? There are three. The motion is carried, on division.

The committee adjourned at 6.05 p.m., to meet again at 8 p.m.

EVENING SESSION

The committee resumed at 8.00 o'clock.

The CHAIRMAN: Order, gentlemen. We were considering page 4, and as we have finished with that let us turn to page 5.

Mr. ARMSTRONG: Page No. 5 is:

RETIREMENT OF MATURING CAPITAL OBLIGATIONS, SINKING FUND AND EQUIPMENT PRINCIPAL PAYMENTS

Due date 1940	Issue	Amount
April 16—	Payment under Hire-Purchase Agreement.. . . .	\$ 517,173 07
May 1—	Canadian National Railway Company 4½ Per Cent Equipment Trust Series "J" Certificates.. . . .	1,000,000 00
May 1—	Canadian National Railway Company 5 Per Cent Equipment Trust Series "K" Certificates.. . . .	1,200,000 00
June 1—	Canadian National Railway Company 4½ Per Cent Equipment Trust Series "L" Certificates.. . . .	1,050,000 00
July 1—	Canadian National Railway Company 2 Per cent 1927 Guaranteed Deben- ture Stock.. . . .	969,056 50
July 1—	Canadian National Railway Company 2½ Per Cent Equipment Trust Series "Q" Certificates.. . . .	650,000 00
July 1—	Wellington, Grey and Bruce Railway Company 7 Per Cent Bonds.. . .	5,840 00
July 1—	New England Elevator Company 3¾ Per Cent Bonds.. . . .	10,000 00
Aug. 1—	Canadian National Railway Company 2½ Per Cent Equipment Trust Series "O" 1937.. . . .	1,430,000 00
Sept. 15—	Canadian National Railway Company 2¾ Per Cent Equipment Trust Series "P" 1938.. . . .	500,000 00
Oct. 1—	St. John and Quebec Railway Company, 4 Per Cent Stock.. . . .	27,279 77
Dec. 14—	Grand Trunk Western Railroad Equipment Trust, 1929.. . . .	283,000 00
Dec. 14—	Central Vermont Railway, Inc., Equipment Trust, 1929.. . . .	46,000 00
Dec. 31—	Indebtedness to State of Michigan re Woodward Avenue.. . . .	427,528 54
Dec. 14—	Central Vermont Railway, Inc., Equipment Trust, 1929.. . . .	78,000 00
1941		
Jan. 1—	Wellington, Grey and Bruce Railway Company 7 Per Cent Bonds.. . .	5,840 00
Grand total.. . . .		\$8,199,717 88 (say) 8,200,000 00

NOTE.—There has not been included in the above statement the semi-annual Sinking Fund Payments of \$250,000, due July 1, 1940, and January 1, 1941, for Canadian Northern Railway Company 6½ Per Cent Sinking Fund Bonds, as these amounts, in the judgment of the Management, will not be required owing to the improbability of our being able to use same in accordance with the terms of the Trust Agreement.

Mr. BLACK: We have only read part of it. What has been read?

The CHAIRMAN: Nothing has been read except what you have heard this moment.

Mr. BLACK: What page?

Mr. ARMSTRONG: Page 5, sir.

Mr. BLACK: Page 4, we did not touch that, did we?

The CHAIRMAN: Oh, yes; we were at it for quite a while.

Mr. HANSON: What are we waiting for?

The CHAIRMAN: We are considering page 5 to see if there are any questions or any comments. If not, we will pass on to page 6.

Mr. ARMSTRONG: Page 6 is the budget for the year 1940:

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED
BUDGET FOR YEAR 1940

	1940 Estimate
Estimated Net Income from Operation	
Operating Revenues.. . . .	\$4,465,250
Subsidies to be received from the West Indies Colonies, in conformity with Trade Agreement entered into with the Government of the Dominion of Canada.. . .	204,750
Total Revenues.. . . .	\$4,670,000
Operating Expenses.. . . .	3,975,000
Net Operating Income.. . . .	\$ 695,000
Interest Requirements on 5 Per Cent 25-Year Bonds issued in 1930, Principal Amount \$9,400,000.. . . .	470,000
Net Income available towards Payment of Interest on Advances by Government of Canada.. . . .	\$ 225,000
Capital Expenditures	
Additions and Betterments.. . . .	\$ 21,000

The CHAIRMAN: Are there any comments or interrogations in connection with this page?

Mr. BLACK: We might compare the statement with the result of the previous year.

Mr. COOPER: Our operating revenues in 1939 were \$4,642,000 as compared with the 1940 budget of \$4,670,000.

Mr. HARRIS: I am sure the operating revenue will be more this year.

Mr. VAUGHAN: Our freight traffic is increasing but there are other factors which affect the situation.

Mr. HARRIS: They are good and busy, in other words.

Mr. VAUGHAN: In some cases our vessels have been taken off their regular routes—we are not sure what revenue we are going to get this year.

Mr. HARRIS: What revenue did you receive in the first six months' period?

Mr. COOPER: I could not give it to you down to June, but to May 31 revenues for 1939 were \$1,779,000 and in 1940 they were \$1,941,000.

Mr. VAUGHAN: I might point out there, Mr. Harris, that the passenger business has practically disappeared and a large portion of the earnings of the "Lady" ships has been from passenger traffic.

Mr. HARRIS: Really?

Mr. VAUGHAN: Oh, yes.

Mr. HARRIS: Freight is a big item?

Mr. VAUGHAN: Yes, freight always was a big item. Passenger earnings are a substantial part of the income. Of course, there are a few travelling between the islands.

Mr. HARRIS: This Monarch of Bermuda and sister ships are sweeping up the passenger traffic on the "Lady" boats. I have a recollection of coming up on one occasion when there were only nineteen passengers on board.

Mr. VAUGHAN: That may have been in an off season. Last year during the travel season the boats were pretty well filled with passengers. I would like to point out that before the Canadian National West Indies Steamships took over the operation of these boats there was a subsidy arrangement in effect between

the government and the Royal Mail Steam Packet Company. They operated with four old and slow boats a service to the eastern islands only. I think they were paid somewhere around \$350,000 a year as a subsidy which was in effect for a number of years and paid by the Department of Trade and Commerce. Then the Canada-West Indies Trade Agreement came along about 1927 and the Department of Trade and Commerce at that time called for tenders from various steamship companies to ascertain what they would perform the service for as called for under the Canada-West Indies Trade Agreement. I think they only got one tender, that of the Royal Mail Steam Packet Company who asked for a subsidy of approximately \$600,000 for the eastern service only. My recollection is that it was intimated at the time that an additional subsidy of some \$200,000 or \$250,000 would be required for the operation of the western service. I think it is safe to say that an outside steamship company would not have performed both services for a subsidy of less than \$800,000 per annum.

Mr. HARRIS: I make the general observation: There has been a steady increase in the volume of our exports. They have risen from \$76,000,000 to \$110,000,000, that represents a 40 per cent increase in our exports and a good deal of that went to the West Indies. For the six months ending June we moved up from \$3,000,000 to \$5,400,000; that is an increase of 20 per cent. This service participated in that increase. These figures in the budget are low, and it is all to the good. They are going to make more money this year than they ever made due to circumstances over which we have no control but rather due to world conditions. My observation is that the budget estimate is low; and that bears on the consolidated statement again and bears direct relationship to the \$15,000,000, or the deficit, not the \$15,000,000 deficit, but the deficit that was asked for in the estimates. It is a separate item, I understand that, but it bears on everything that is asked for in the estimates.

The CHAIRMAN: Are you ready to pass this budget, gentlemen, page 6?

Mr. JACKMAN: Mr. Chairman, it really seems almost incomprehensible in view of what Mr. Harris has said that this line should not be doing a great deal better than previously. The Canada Steamship Lines has shown a much better statement for the first six months of this year than previously. Their boats are on new courses and new business which is very well paid and showing very good profit. It seems hard to understand how ocean going boats such as these would not earn substantially more than in 1939.

Mr. McCULLOCH: There is going to be very little passenger traffic to the West Indies.

Mr. COOPER: In support of what Mr. Vaughan has said about passenger traffic I might mention that the passenger revenue for 1939 was \$547,000, and this year it is only \$140,000, a drop of \$400,000 in the first five months of the year in passenger receipts.

Mr. JACKMAN: I suppose under the trade treaty you have to maintain these boats on this particular service; you cannot use them for other purposes?

Mr. VAUGHAN: That is one of our difficulties. The Canada-West Indies Trade Agreement specifies not only the ports of call but also the frequency of the service, and the boats have to remain on that route. It is not as though they could go out on other routes and pick up other business, at the high rates prevailing. They have to remain on the routes fixed by the trade agreement.

Mr. JACKMAN: Will this traffic on which they are engaged stand a higher rate schedule?

Mr. VAUGHAN: There has been an increase of 25 per cent in freight rates, but that is nothing to compare with the increase which has taken place in trans-Atlantic rates. I feel that there is something in what Mr. Harris says.

There is a lot more export business going down to the West Indies. We are hoping, of course, that these boats will carry full cargoes. I think we are going to do a very good business between now and the end of the year. But there is the feature that our passenger business has pretty nearly disappeared.

Mr. HARRIS: That 10 per cent addition does not apply in the case of this route; I mean, that 10 per cent advantage which we have against competitive goods from American ports.

The CHAIRMAN: Is there any further debate on this item?

Mr. JACKMAN: It is another example, I should say, of where considerations outside of those of straight transportation have a very direct influence on the earnings of this company, or as part of our Canadian National system. If it were not for the fact that we have a trade treaty which has nothing at all to do with the Canadian National Railway system—they are rather properties belonging to the Dominion of Canada—if it were not for that these boats might be used in more profitable channels than they are being used in at the present time. In other words, it is not a straight business enterprise when you have not got the freedom of operation in connection with your boats that an ordinary commercial company would have; and, therefore, any losses which might accrue from this operation are more due to larger political considerations than they are to straight business considerations. I should think from the evidence that we have had that that must be reasonably clear.

Mr. SMART: You should understand, Mr. Jackman, that this steamship line is not part of the Canadian National Railways.

Mr. HUNGERFORD: It is an entirely separate organization, the stock being held by the crown.

Mr. JACKMAN: It is something like the Trans-Canada Air Lines?

Mr. SMART: It is parallel to the Trans-Canada Air Lines.

Mr. HUNGERFORD: Except that in the case of the Trans-Canada Air Lines the Canadian National does own the stock.

Mr. SMART: It is not quite the same, of course; Trans-Canada stock is owned by the Canadian National Railways and in this case the stock is owned by the crown itself. This is a separate corporation.

Mr. JACKMAN: But the point is you cannot look at it as a straight business concern because it is tied in so definitely with the trade treaty.

Mr. SMART: It is tied in with the Canada-West Indies Trade Agreement.

Mr. HUNGERFORD: It merely exists because of that treaty.

Mr. HANSON: I would like to have an explanation of this question of the long-term high interest rate bonds. Would it not be possible to refinance them at a lower rate of interest?

Mr. COOPER: They are a straight issue for twenty-five years and they are not callable.

Mr. HANSON: That amount would be lost by the government for twenty-five years?

Mr. COOPER: Yes.

Mr. HANSON: Are they government bonds?

Mr. COOPER: They are West Indies Company bonds guaranteed by the Dominion.

Mr. HANSON: And you cannot retire them until the twenty-five years are up?

Mr. COOPER: They cannot be touched unless you want to go into the market and buy them up at the market price.

Mr. HARRIS: What are they worth now?

Mr. COOPER: I could not say.

Mr. HARRIS: Payable in New York at 5 per cent they would be worth more than 110.

Mr. JACKMAN: Not in New York.

Mr. HARRIS: No, not in New York.

Mr. COOPER: We paid \$25,000 premium on the last coupons which were cashed.

The CHAIRMAN: If you are through with that page, we have completed consideration of this railway budget.

Mr. HANSON: I move the adoption of this budget.

Mr. BLACK: I asked for a statement or an estimate of what expenditure would be required to meet the unemployment insurance on the basis of the bill that is now before the house.

Mr. MACINNIS: It would be pretty hard for anyone to give that information before he has the schedules in the bill; until you find out what it is going to be.

The CHAIRMAN: The bill is not cast yet really. The railway management are not in the position to answer that question, Mr. Black.

Mr. HARRIS: Just before you put the motion. A question was asked, and it was not answered, on the statement of the auditors—this document here (indicating)—are we going to have produced a copy of the memorandum to the board of directors dealing with the inactive properties, figures of equipment retirements and other internal matters? The specific question emphasized internal management, and this was to be dispatched to the Minister of Transport in due course. That was going to be presented to the committee and we have not received it yet.

Mr. HUNGERFORD: If that was a report to the directors, I can get it. We have not got it here, Mr. Harris, but we can get it.

Mr. HARRIS: Would it be embalmed in the record of this committee, Mr. Chairman?

Mr. HUNGERFORD: I do not think so.

Mr. HANSON: By unanimous consent it could be embalmed in the record.

Mr. HUNGERFORD: I have not got it. Mr. Matthews is here; you can ask him that question.

The CHAIRMAN: Then we shall recall Mr. Matthews. Will you repeat your question, Mr. Harris?

Mr. HARRIS: The request was made some three sittings ago for a copy of the memorandum to the board of directors dealing with inactive properties, advance equipment retirement and other internal matters, which was despatched to the Minister of Transport in accordance with a deposition on page 3 of the Auditor's Report and accounts contained in this grey book.

Mr. SMART: That is a report to the board of directors of the Canadian National Railways.

The CHAIRMAN: I think this committee has a right to ask for it.

Mr. MATTHEWS: This is the report to the board of directors of the national railway system under date of the 16th of March. Reference is made to it on page 3 of our report to parliament where we refer to the copy of our memorandum to the board dealing with inactive properties and advance equipment retirement, etc., being despatched to the Minister of Transport. It is in addition to the report to parliament. We make an annual report to the board of directors to which we make reference in the report to parliament:—

“GENTLEMEN—Supplementing our report to parliament, we are submitting for the consideration of the board—”

Mr. HARRIS: If it is very long, put it in the record to save time.

The CHAIRMAN: Are you satisfied?

Mr. HARRIS: Yes.

Mr. MATTHEWS: It is about seven pages.

Mr. HARRIS: It is not very long.

The CHAIRMAN: Would you prefer to have it read?

Mr. BRADETTE: Put it in the record.

Mr. HARRIS: Would you read the section that has to do with other internal matters.

Mr. MATTHEWS: That covers all other matters excepting the inactive properties and the matter of equipment retirement. The other matters will take up most of the report. I can tell you what the subject matter was, Mr. Harris.

Mr. HARRIS: All right; carry on.

Mr. MATTHEWS: Equipment, investments in affiliated companies, insurance fund securities, land contracts receivable, and a matter of certain bonds which I would really question the advisability of making public unless the members wish to. It is a matter of policy for the committee.

Mr. BLACK: Perhaps the committee should know what that is and not have it put in the public record.

Mr. MATTHEWS: It has to do with the question of some prior lien bonds and the question of their validity at this date.

Mr. BRADETTE: On what ground?

Mr. MATTHEWS: On the ground that the question of the payment of these bonds goes back a number of years. There is some legal question about it.

The CHAIRMAN: Is it sub judice at the present time?

Mr. MATTHEWS: I would not say so.

Mr. JACKMAN: These are bonds of branch lines.

Mr. MATTHEWS: Yes.

The CHAIRMAN: Do you want this material put in the record with the exception of the latter matter to which Mr. Mathews has referred?

Mr. HARRIS: We ought to know what it is. I cannot get the significance of what the witness is saying. It strikes me that is something—correct me if I am wrong—having to do with certain bonds in which certain provinces are interested. You are probably going to assume the full responsibility for them?

Mr. MATTHEWS: I am only thinking of the public information, that is all.

Mr. HARRIS: I am sorry, I cannot hear you.

Mr. MATTHEWS: I am only thinking of the question of the public information; I am not thinking of the members of this committee. It is a matter that I would suggest, if it is to be considered, should be considered without any report being made.

Mr. HARRIS: Why?

Mr. MATTHEWS: Because, Mr. Harris, with these prior bonds, it is a question of whether they are legally payable or not.

Mr. HARRIS: Most likely they are not. Probably they are not payable. It is probably a bankrupt concern, is it, something like the old Canadian and River Coal Company where you took over the bonds when the company was bankrupt?

Mr. BRADETTE: If it is not wise to give publicity to this matter we should have no record made of it.

Mr. MATTHEWS: There is nothing in this report.

The CHAIRMAN: I should like to put this question to Mr. Matthews: Is the material in this report likely to be prejudicial or unfavourable to the business of the State if divulged? If so, we will rule it out.

Mr. MATTHEWS: No; not what is said in this report concerning these bonds, because we just barely mention the matter again to the directors referring to the fact that the position in regard to these bonds has remained unchanged during the year. Now, the directors have full knowledge of what those conditions are.

The CHAIRMAN: Under those circumstances, if it is the wish of the committee, this material will go into the record.

Mr. HARRIS: The minister is now here and perhaps Mr. Matthews could have a conversation with the minister and see what he says.

Hon. Mr. HOWE: There are difficulties about putting this in. There is certain confidential information for the directors that would be embarrassing, perhaps, to read it here, in connection with the position of certain bonds.

Mr. HARRIS: How much money is involved?

Hon. Mr. HOWE: If we published the facts about it, it may make a difference to the railway.

Mr. HARRIS: I did not hear the last sentence.

Hon. Mr. HOWE: If we published the facts about these bonds it may make a difference to the railway, I should think.

Mr. HARRIS: In what way would it make a difference to the railway, Mr. Chairman?

Hon. Mr. HOWE: If I answered that, I might as well file the report, I suppose.

Mr. HARRIS: This is not an inquisition at all.

Hon. Mr. HOWE: I suggest that this is a confidential report for the directors. There is nothing in here that would interest the committee. It contains the auditor's slant on certain securities of the railroad and the position of them which I do not think it would be wise to make public; that is all. I do not mind showing the report to my honourable friend in confidence and let him decide whether it should go in the record.

Mr. HARRIS: No, sir; I am not operating the road; I am a humble member of parliament sitting in, that is all.

Mr. HANSON: Would you say you would give it to any member of the committee?

Hon. Mr. HOWE: Quite, yes; I would be glad to show it to any member of the committee.

Mr. BLACK: I am prepared to abide by the wishes of the minister, Mr. Chairman.

The CHAIRMAN: This is your committee. I think you have a right to demand anything that you in your wisdom think you should demand. I do believe you would be well advised to take the advice of the minister in a matter of this kind. However, it is up to you; it is your committee.

Mr. BRADETTE: Can any member of the committee have access to that report?

Hon. Mr. HOWE: Yes.

Mr. BRADETTE: That should be satisfactory to the members of the committee.

The CHAIRMAN: Will that meet the wishes of the committee; that this information will be at the disposal of any member of the committee without having it go in the record. Is that agreed?

Mr. McCULLOCH: Yes.

The CHAIRMAN: I should like those who are in favour of the suggestion to signify their approval. All right. Carried.

Mr. JACKMAN: Are you going to incorporate the rest of the report in the minutes?

The CHAIRMAN: If you wish it, yes.

Mr. JACKMAN: I do not know whether that is material or not.

Hon. Mr. HOWE: I do not think you should incorporate any of this in the minutes. I think we should leave it that any member of the committee can read it over for his own information, I do not think it should go in the minutes. This was intended as a private report to the directors of the line.

Mr. BLACK: A report from whom?

Hon. Mr. HOWE: The auditors, George A. Touche & Co. It is material that George A. Touche & Co., did not think should be published; that is why they submitted it as a private report, and I think it should be treated as a private report. I can assure you there is nothing in it that is of much interest. It has a few minor items.

Mr. JACKMAN: Might I ask what the conditions are which determined the policy, on the one hand, of incorporating the Trans-Canada Air Lines into a wholly owned subsidiary of the railway company and having the Canadian National (West Indies) Steamships Limited entirely on its own feet with ownership residing in the Crown? What are the conditions which determined that one should be one thing and one the other?

Hon. Mr. HOWE: The Canadian Steamships Limited was bought as a Crown property to implement the Canadian West Indies Treaty. Those ships were bought at the time the Canadian West Indies Treaty was made. It has no relation with the Canadian National Railways. It was found convenient to have the same management as the Canadian National Railways, but otherwise it has no relation with railway. No railway money went into it, and it is not railway property.

In the matter of the Trans-Canada Air Lines it was decided that as the railway was in the transportation business and as certain officials of the railway could very usefully attend to certain transportation problems in connection with the air lines it would be wise to make the Trans-Canada Air Lines a wholly-owned subsidiary of the railway.

Mr. JACKMAN: In the consolidated revenue account it was never the intention to consolidate the accounts of the T.C.A. and the profit and loss statement? Although it is a wholly-owned subsidiary it could never be treated on a consolidated basis with its parent company?

Hon. Mr. HOWE: No, that is not the intention. It is simply a wholly-owned subsidiary of the company. It is not a railway operation; therefore the accounts could never be consolidated with the railway accounts.

Mr. JACKMAN: Were there any compelling reasons why the T.C.A. should have been started as a subsidiary of the railway company and not left on its own feet?

Hon. Mr. HOWE: It was more or less a process of evolution. When the company was first organized it was the intention that it should be owned partly by the Canadian National and partly by the Canadian Pacific. At the last moment the Canadian Pacific Railway decided not to participate, and we therefore proceeded with it as a wholly-owned subsidiary of the Canadian National. That is how it happened, at least. But I have no reason to regret that it was made a subsidiary of the Canadian National Railways; I think it has been a good thing for the Air Lines.

The CHAIRMAN: Gentlemen, we are out of order. I have a motion that we adopt this report. Have I a seconder?

Mr. McCULLOCH: I will second it.

Mr. BLACK: Before this report carries, Mr. Chairman, some of it may have been discussed in some of the sessions that were held when I unfortunately could not be present, having to attend other meetings. A statement is before the committee showing the total bonded indebtedness, direct and indirect, for which the Canadian National is responsible. I have in mind an issue of \$4,000,000 for the Halifax & Southwestern Railway, which I think matures either this year or next year, and carried in the accounts of Nova Scotia as an asset.

Mr. COOPER: They are part of the funded debt of the Canadian National system.

Mr. BLACK: Where is it set out?

Mr. COOPER: Will you please refer to page 20? You will find it the third item from the bottom— $3\frac{1}{2}$ per cent, first mortgage guaranteed debenture bonds of the Halifax & Southwestern Railway, maturing September 30, 1942, \$4,447,000.

Mr. BLACK: There is another issue of \$1,000,000, on page 22, item 54. I do not think that is held by the province of Nova Scotia.

Mr. COOPER: Yes, the capital stock of the Halifax & Southwestern is owned by the Canadian Northern Railway Company—\$1,000,000,—the Canadian Northern being one of the component companies of the Canadian National system.

Mr. DONNELLY: What bonds have you due this year?

Mr. COOPER: The only maturities in 1940 are those shown on page 5 of the budget.

Mr. DONNELLY: They are not in this book I have here.

Mr. COOPER: You could pick them out of there but it is rather difficult. \$8,200,000 is the total.

The CHAIRMAN: I do not think, gentlemen, that we ought to consider going back over all this again to-night. We went over it meticulously this afternoon and we spent a great deal of time on it. I do not think it is unreasonable to refer to one or two matters but I do not believe we should go over them all again. We have a motion before the chair to adopt the report.

Mr. HARRIS: Does that include them all?

The CHAIRMAN: We have considered the others; we could take them all together but if the committee would prefer it we can adopt them one at a time.

Mr. HARRIS: If adopted they will be adopted on division.

The CHAIRMAN: Then we will adopt them on division.

Mr. HARRIS: Before the motion is put I should like to state a few facts which cause the division. First, we have had six months' experience and we have the actual operation of this six months, a fact to my mind which helps to guide this committee. This has been favourable due to the sad circumstances of the war; no doubt, favourable to the extent of several millions of dollars, anywhere between five million and perhaps fifteen million dollars. But we are charged with the responsibility of recommending at least a portion of that deficit to the house as set out in the order of reference.

This committee knows from the evidence adduced and submitted here that we will require \$15,000,000 for deficit purposes on the Canadian National Railways due to the actual experience of the six months.

Mr. McCULLOCH: I thought we heard all that this afternoon.

Mr. HARRIS: Quite, and now you will hear it again.

Mr. McCULLOCH: The reporter has it down and we do not want to get it down twice.

Mr. HARRIS: I am quite satisfied to stay here and put it down again. Secondly, the foreign exchange situation is one which in the interest of Canada

we should conserve if at all possible. We should conserve every possible Canadian dollar and stop their flight by the purchase of maturities coming due in New York. That policy is not being pursued by the railway system in co-operation with the government. Thirdly there are certain expenditures which were stopped in the year 1931 and have been started again.

Mr. HANSON: What are these?

Mr. HARRIS: They refer to expenditures required to straighten out the terminal in the Montreal area. I dissent from the adoption of this report on account of the suggested budget expenditure of \$3,350,000 at this time when we need Canadian dollars for other purposes.

The CHAIRMAN: All in favour of the adoption of this report will signify by raising their right hand. Those against. I declare the motion carried.

Now, gentlemen, we have already considered in this committee the report of the auditors, George A. Touche & Company. We have considered also the annual report of the Canadian National Railway system, the annual report of the Canadian National West Indies Steamships Limited, and the Canadian National Railways Securities Trust. We have been over them all. It remains for us to adopt these reports. I should like a motion.

Mr. EMMERSON: I move that they be adopted.

Mr. McCULLOCH: I second the motion.

The CHAIRMAN: You have heard the motion; all in favour—

Mr. HARRIS: On division.

The CHAIRMAN: The reports are carried on division.

Now we have certain votes to deal with. We still have vote 445 of the budget, Maritimes Freight Rates Act, Canadian National Railways eastern lines, \$2,000,000. You will find that on page 51 of the estimates. "Vote 445, Maritimes Freight Rates Act. To hereby authorize and provide for the payment from time to time during the fiscal year of 1940-1941 to the Canadian National Railway company of the differences estimated by the Canadian National Railway company and certified by the auditors of the said company to the Minister of Transport as and when required by the said minister, accruing on account of the application of the Maritimes Freight Rates Act." Shall I go ahead?

Mr. HANSON: Dispense.

Hon. Mr. HOWE: This is purely statutory. But it must be paid under the statutes.

Mr. DONNELLY: It has nothing to do with the committee.

Hon. Mr. HOWE: It is not controllable.

Mr. HARRIS: It has nothing to do with this committee.

Mr. HANSON: We have passed them every year. The only thing I can say about the Maritime freight rates agreement is that they should apply to British Columbia as well as the Maritimes.

The CHAIRMAN: Shall the item carry?

Carried.

Mr. HARRIS: Just before the item carries, may I say the same observation obtains with respect to this item as the observation I made with regard to the Canadian National budget. Our exports in the month of June, largely through Maritime ports, moved up from \$76,000,000 to \$110,000,000.

Mr. BLACK: This is on a different basis. This is statutory and provides for certain percentage allowances on freight originating in the Maritime provinces.

Hon. Mr. HOWE: Of course, the larger the movement here the larger the payment.

Mr. BLACK: Yes; that is quite true.

Mr. HARRIS: We have no control over that.

The CHAIRMAN: Vote 445 is carried. Vote 446, Maritimes Freight Rates Act, railways other than the Canadian National, \$800,000. Shall the item carry?

Carried.

Mr. HARRIS: Statutory.

Mr. HANSON: I make the same observation with regard to this item as I made with regard to the other.

Mr. EMMERSON: Is an audit made of these different items, for instance, in connection with the C.P.R. and the C.N.R. lines?

The CHAIRMAN: We have an inquiry to you, Mr. Smart, through the chair. Will you repeat that, Mr. Emmerson?

Mr. EMMERSON: How is the amount of subsidy arrived at? Is an audit made of the railway companies' accounts of each shipment that is made and where is the audit made?

Mr. SMART: Well, that is made by the auditors.

Mr. MATTHEWS: Are you speaking of the C.N.R.?

Mr. EMMERSON: This is for other companies.

Mr. SMART: These audits are made by the Board of Transport Commissioners. They have the original rates and they have the present rates and the traffic.

Mr. EMMERSON: Is there an audit made of each manifest at the railways?

Mr. SMART: Yes; it is checked.

Hon. Mr. HOWE: Certified by the Board of Transport Commissioners.

The CHAIRMAN: We now come to vote 459, Canadian National income deficit, \$15,000,000.

Shall the item carry?

Carried.

Mr. HARRIS: I thought we were dealing only with the government-owned enterprise.

The CHAIRMAN: This is Canadian National Railways deficit. Shall the item carry?

Carried.

We now come to vote 460, Prince Edward Island car ferry and terminal, \$327,000. Shall the item carry?

Carried.

Mr. BLACK: That is the same amount as was required in the previous fiscal year.

Hon. Mr. HOWE: Yes, that is correct.

Mr. McCULLOCH: The Wood Island ferry is not in there.

Hon. Mr. HOWE: No.

Mr. BLACK: Would the operation of the Wood Island ferry affect the earnings on this ferry service?

Hon. Mr. HOWE: It is difficult to say. Of course, this ferry does not carry trucks; the Wood Island ferry will, so it may affect it. I do not think you can tell until we try it.

The CHAIRMAN: If this item is carried I think we have about completed the most of our work in connection with the committee. We still have a report to

submit; but it will take a little time to do that. To speak for myself I should like to thank the members of the committee for their co-operation and—

Hon. Mr. HOWE: There is vote 458 to be approved. You have already discussed it in the budget of the Canadian National Steamships. It is a capital vote of the Canadian National West Indies Steamships company.

The CHAIRMAN: I thought we were through. We still have vote 458, Canadian National West Indies Steamships Limited, capital advances, \$21,000.

Mr. EMMERSON: There was nothing said as to what was done with that. Is that just for improvements?

Hon. Mr. HOWE: Minor improvements on the boats. They altered some of the staterooms and made them smaller.

The CHAIRMAN: Shall the item carry?

Carried.

Now we are through, and on behalf of the members I should like to thank the officials of the Canadian National transport system for their very courteous treatment of the members of the committee.

Mr. HARRIS: Before we adjourn, may I ask if you are drafting the report to the house?

The CHAIRMAN: Yes.

Mr. HARRIS: You personally?

The CHAIRMAN: We will call the committee together and submit the report to them.

Mr. HARRIS: Who is "we"?

The CHAIRMAN: The officials and the clerk and possibly—

Mr. HARRIS: There will be no sub-committee to draft the report?

The CHAIRMAN: No, unless you wish to form one.

Mr. HARRIS: I just want to know, that is all.

The CHAIRMAN: I thought we would draft the report and submit it to the members and they could do what they liked with it.

Mr. BLACK: I want to join with you in your expression of appreciation to the officials of the Canadian National Railways in coming here and giving us all the information that we asked; and speaking for myself I want to express my high appreciation of the services that Mr. Hungerford and his board render to Canada and the great responsibility that is theirs. While we cannot entirely agree with the policies, we still have appreciation for their desire to serve Canada in the responsible position they occupy. I wish to associate with that my expression of appreciation of the capacity of the retiring Minister of Transport, and the intimate knowledge he has of the operation of the Canadian National Railways and the Trans-Canada Airways and the courtesy he extends to members of the house and members of this committee at all times.

The CHAIRMAN: I do not think I need to put any such motion. I think gentlemen you have heard it.

The committee adjourned.

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Standing Committee, 1940

SESSION 1940

HOUSE OF COMMONS

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STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS

No. 4

TUESDAY JULY 23, 1940

INCLUDING

REPORT TO THE HOUSE



OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1940

MINUTES OF PROCEEDINGS

JULY 23, 1940.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met (*in camera*) this day at 11.00 o'clock a.m. Mr. J. P. Howden, the Chairman, presided.

Members present were: Messrs. Black (*Cumberland*), Emmerson, Hanson (*Skeena*), Howden, Howe, Lockhart, McCulloch, Ross (*Middlesex East*), Sanderson and Sissons—10.

The Committee took under consideration a draft of its Third Report.

Mr. Hanson moved, seconded by Mr. Sanderson,—That this Report be adopted as drafted, and submitted to the House. Carried.

On motion of Mr. Ross, the Committee adjourned to meet again at the call of the Chair.

J. P. DOYLE,
Clerk of the Committee.

REPORT TO THE HOUSE

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to submit the following as its

THIRD REPORT

Pursuant to Order of Reference dated June 28, 1940, your Committee has considered and approved the following Reports for the year ending December 31, 1939, viz:

Annual Report of the Canadian National Railways;

Annual Report of the Canadian National (West Indies) Steamships, Limited;

Annual Report of Trans-Canada Air Lines;

Annual Report of the Canadian National Railway Securities Trust;

Annual Report of George A. Touche and Company, Auditors for the Canadian National Railways; and the

Budget of the Canadian National Railways (with the item "Net Income Deficit" reduced, in accordance with Estimates Item No. 459, from \$20,000,000 to \$15,000,000).

Canadian National Railway System:

Operating revenues for 1939, were \$203,820,186, this being an increase of \$21,578,463 over the previous year. This was due to the extra volume of freight handled, which increased progressively throughout the year. The express revenue showed an increase of 13.4 per cent and the mail an increase of 1.4 per cent, but the passenger and telegraph revenues showed small decreases. The operating expenses for the year increased by \$6,790,456, which in view of the increased traffic and revenue was considered satisfactory. The ratio of transportation expenses to revenues was the most favourable since 1929. The cash deficit of the Canadian National Railway for the year was \$40,095,519, an improvement over the preceding year of \$14,788,007.

Progress was reported on the construction of the Montreal Terminals which will unite three of the four separate Canadian National stations in Montreal.

The coal industry of Canada should materially benefit by the tax on imports and from the adverse rate of exchange, which will undoubtedly result in the purchase of larger quantities of Canadian coal by the Canadian National Railway.

Your Committee is of the opinion that all refunding operations should be effected with a view to conserving to the utmost Canadian exchange.

Canadian National (West Indies) Steamships, Limited:

There was a decrease of \$273,049, or 5.56 per cent in the operating revenues of this Company during the year 1939, although the operating profit was \$623,859. This was due to fewer trips being made and a smaller import tonnage. A war bonus of 25 per cent of wages was paid to the operating crews.

Operating expenses were reduced by \$150,699; also on account of fewer trips.

Trans-Canada Air Lines:

The operation of this Company for the year 1939 showed a deficit of \$411,656, which was paid by the Dominion Government. The operating revenue was \$2,350,473, of which \$1,632,873, or about 70 per cent, was received from the Post Office Department for the carrying of mail. Considerable criticism was expressed regarding this, as it was felt that the Trans-Canada Air Lines were being subsidized by the Post Office Department. Officials pointed out, however, that with the increased volume of mail and passenger business, which has been very marked, the cost of carrying mail will be substantially reduced.

An item of particular satisfaction was the completion of 98.1 per cent of scheduled flights, more than 3,125,000 miles, without injury to passengers or employees.

Considerable extensions have been made during the year and negotiations are in progress for further schedules.

Flying schools have been established and maintained in which are being trained the personnel for present and future requirements.

Budget of the Canadian National Railways:

The item of \$20,000,000, Net Income Deficit for the current year, was criticized in view of the actual experience of the first six months showing an increased revenue, which if maintained for the balance of the year, would amount to about \$15,000,000.

A copy of the Minutes of Proceedings and Evidence is annexed hereto.

All of which is respectfully submitted.

J. P. HOWDEN,
Chairman.

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Canadian Railway and Shipping
Committee, 1940/41

SESSION 1940-41
HOUSE OF COMMONS

CA 8015
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STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

TUESDAY, MAY 20, 1941

WITNESSES:

- Mr. S. J. Hungerford, President, Canadian National Railways.
- Mr. R. C. Vaughan, Vice-President, Canadian National Railways.
- Mr. T. H. Cooper, Comptroller, Canadian National Railways.
- Mr. W. M. Armstrong, Assistant Chief of Research and Development, Canadian National Railways.
- Mr. D. B. Colyer, Vice-President, Trans-Canada Air Lines.
- Mr. W. F. English, Assistant to Vice-President, Trans-Canada Air Lines.
- Mr. R. B. Teakle, General Manager, Trans-Canada Air Lines.
- Mr. P. T. Coolican, Assistant Deputy Postmaster General.
- Mr. Geo. Herring, Superintendent Air and Land Services, Post Office Department.

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1941



MEMBERS OF THE COMMITTEE

J. P. Howden, *Chairman*

Messrs.

Bercovitch,
Bradette,
Donnelly,
Dubuc,
Emmerson,
Ferland,
Gray,
Hanson (*Skeena*),
Harris (*Danforth*),
Hazen,
Howden,
Howe,

Jackman,
Lockhart,
McCulloch,
Maybank,
Nicholson,
Parent,
Pouliot,
Ross (*Middlesex East*),
Sanderson,
Shaw,
Sissons.

ANTOINE CHASSÉ,
Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS,

FRIDAY, November 22, 1940.

Ordered,—That the Standing Committee on Railways and Shipping owned, operated and controlled by the Government, be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

THURSDAY, March 27th, 1941.

Resolved,—That Standing Order 63 of the House of Commons relating to the appointment of Standing Committees of the House, be amended by adding to the Standing Committees of the House for the present session a Standing Committee on Railways and Shipping owned, operated and controlled by the Government, to which will be referred accounts and estimates and bills relating thereto of the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines for the present session, for consideration and report to the House; provided however that nothing in the resolution shall be construed to curtail in any way the full right of discussion in Committee of Supply; and that the said Committee consist of: Messrs. Bercovitch, Black (*Cumberland*), Bradette, Diefenbaker, Donnelly, Dubuc, Emmerson, Ferland, Gray, Hansell, Hanson (*Skeena*), Harris (*Danforth*), Howden, Howe, Lockhart, MacInnis, McCulloch, Maybank, Parent, Pouliot, Ross (*Middlesex East*), Sanderson, Sissons.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

MONDAY, May 5, 1941.

Ordered,—That the names of Messrs. Jackman, Hazen, Shaw and Nicholson be substituted for the names of Messrs. Black (*Cumberland*), Diefenbaker, Hansell and MacInnis on the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

TUESDAY, May 6, 1941.

Ordered,—That the following Reports and Estimates be referred to the said Committee:—

Financial Budget of the Canadian National Railways and Canadian National Steamships for the calendar year 1941;

Annual Report of the Canadian National Railways System, for the year ended December 31, 1940;

Annual Report of the Canadian National (West Indies) Steamships Limited, for the year ended December 31, 1940;

Report of the firm of George A. Touche and Company, Auditors of the Accounts of the Canadian National Railways System for the year ended December 31, 1940;

Vote No. 403—Maritime Freight Rates Act—Canadian National Railways Eastern Lines;

Vote No. 404—Maritime Freight Rates Act—Railways other than Canadian National Railways;

Vote No. 416—Canadian National (West Indies) Steamships, Ltd.—Capital—Advances;

Vote No. 417—Prince Edward Island Car Ferry and Terminals Deficit 1941.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

TUESDAY, May 20, 1941.

Ordered—That the said Committee be empowered to print, from day to day, 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

Ordered—That the said Committee be empowered to sit while the House is sitting.

Ordered—That the quorum of the said Committee be reduced from 12 members to 8 members.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORTS TO THE HOUSE

TUESDAY, May 20, 1941.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, begs leave to present the following as a

FIRST REPORT

Your Committee recommends:—

1. That it be empowered to print, from day to day, 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto;

2. That it be empowered to sit while the House is sitting;

3. That the quorum of the Committee be reduced from 12 members to 8 members.

All of which is respectfully submitted.

J. P. HOWDEN,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, May 20, 1941.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met this day at 11 o'clock a.m.

Members present: Messrs. Bercovitch, Donnelly, Emmerson, Hanson (*Skeena*), Hazen, Howden, Jackman, Lockhart, McCulloch, Nicholson, Pouliot, Ross (*Middlesex East*), Sanderson, Shaw, Sissons.

The Clerk of the Committee read the Orders of Reference and invited nominations for Chairman.

Mr. McCulloch moved, seconded by Mr. Hanson (*Skeena*), that Mr. J. P. Howden be elected Chairman.

And the question being put on the said motion, it was agreed to.

And the Clerk of the Committee having declared Mr. J. P. Howden duly elected, he took the Chair. He thanked the members for the honour they had conferred again upon him and the Committee proceeded forthwith with its deliberations.

On motion of Mr. Donnelly, it was

Resolved.—That the Committee ask leave to print, from day to day, 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

On motion of Mr. Donnelly, it was

Resolved.—That the Committee ask leave to reduce its quorum from 12 members to 8 members.

On motion of Mr. Donnelly, it was

Resolved.—That the Committee ask leave to sit while House is sitting.

On motion of Mr. Jackman, it was

Resolved.—That the Committee should commence its morning sittings at 10.30 a.m.

Hon. P. J. A. Cardin, the Minister, and the following officials of the Department of Transport were in attendance:

Mr. C. P. Edwards, Deputy Minister;

Mr. G. W. Yates, Assistant Deputy Minister;

Mr. F. M. MacLennan, Chief Treasury Officer;

Mr. J. A. Wilson, Director of Air Services.

The President and general officers of the Canadian National Railways System, the Trans-Canada Air Lines and the Canadian National (West Indies) Steamships, Limited, were also in attendance viz:—

Mr. S. J. Hungerford, Chairman of the Board of Directors and President, Canadian National Railways System;

Mr. R. C. Vaughan, Vice-President, Canadian National Railways System;

Mr. T. H. Cooper, Comptroller, Canadian National Railways System;

Mr. W. M. Armstrong, Assistant Chief, Bureau of Research and Development, Canadian National Railways System;

Mr. D. B. Colyer, Vice-President, Trans-Canada Air Lines;

Mr. W. F. English, Assistant to Vice-President, Trans-Canada Air Lines;

Mr. R. B. Teakle, General Manager, Trans-Canada Air Lines;

Mr. W. S. Thompson, Director of Publicity, Canadian National Railways System and Trans-Canada Air Lines.

Mr. O. A. Matthews represented George A. Touche & Co., auditors.

At the request of the Chairman, Mr. Hungerford introduced the officials present and explained to the Committee the respective function of each of them.

The Committee then considered the Annual Report of Canadian National (West Indies) Steamships, Limited, for the year ended 31st December 1940.

The report was read by Mr. W. M. Armstrong and during the discussion which followed he was assisted by Messrs. R. C. Vaughan, R. B. Teakle and T. H. Cooper.

In this same connection the Committee considered Vote No. 416 of the Estimates for the Fiscal Year ending March 31, 1942—Canadian National (West Indies) Steamships, Limited. Capital—Advances, \$20,000.

On motion of Mr. Hanson (*Skeena*), the Annual Report and Vote No. 416 were adopted.

The Committee thereafter took into consideration the Annual Report of Trans-Canada Air Lines for the year ended 31st December 1940.

Mr. D. B. Colyer read the report and during the discussion which followed was assisted by Messrs. W. F. English and T. H. Cooper. At the time of adjournment the report was still under study.

It was ordered that Mr. Geo Herring, Director of Trans-Canada Air Lines and Chief Superintendent of Air and Land Mail Services, Post Office Department, and Mr. P. T. Coolican, Assistant Deputy Postmaster-General be asked to attend the next sitting to give certain information before the Committee concerning Air Mail services.

At 1 o'clock p.m., on motion of Mr. Donnelly, the Committee adjourned to meet again at 4 o'clock p.m. this day.

The Committee met again at 4 o'clock p.m. Mr. P. J. Howden, the Chairman, presided.

Members present: Messrs. Bercovitch, Donnelly, Emmerson, Gray, Hanson (*Skeena*), Hazen, Howden, Howe, Jackman, McCulloch, Maybank, Nicholson, Pouliot, Ross (*Middlesex East*), Sanderson, Shaw, Sissons.

In attendance: In addition to those mentioned at the morning sitting, Mr. P. T. Coolican, Assistant Deputy Postmaster General; and Mr. Geo. Herring, Superintendent of Air and Land Services, Post Office Department.

The Committee resumed consideration of the Annual Report of Trans-Canada Air Lines.

Messrs. Coolican and Herring supplied the Committee with certain data concerning Air mail services and on the completion of their evidence the Chairman expressed the gratitude of the Committee for their valuable help.

Further discussion took place, Messrs. D. B. Colyer, W. F. English and T. H. Cooper answering most of the questions.

On motion of Mr. Donnelly, the Annual Report of Trans-Canada Air Lines was adopted.

The Committee then passed to the consideration of the Annual Report of the Canadian National Railways System for the year ended 31st December 1940.

Mr. S. J. Hungerford, Chairman of the Board of Directors and President, read a statement to the Committee, as supplementing the Annual Report.

Mr. D. M. Armstrong, Assistant Chief, Bureau of Research and Development, Canadian National Railways System, followed by commencing to read the Annual Report. At the hour of adjournment Mr. Armstrong was still dealing with the Report.

At 5.55 o'clock p.m., on motion of Mr. McCulloch, the Committee adjourned to meet again at 8.30 o'clock p.m. this day.

The Committee met again at 8.30 o'clock p.m. Mr. P. J. Howden, the Chairman, presiding.

Members present: Messrs. Donnelly, Emmerson, Gray, Hanson (*Skeena*), Hazen, Howden, Jackman, McCulloch, Maybank, Nicholson, Parent, Pouliot, Ross (*Middlesex East*), Sanderson, Shaw, Sissons.

In attendance: The same officials named as attending during the proceedings of the morning sitting.

The Committee resumed consideration of the Annual Report of the Canadian National Railways System.

Mr. Armstrong continued the presentation and he was joined in the general discussion by Mr. S. J. Hungerford, Mr. Vaughan and Mr. Cooper. At the hour of adjournment the Report was still under study.

At 10.20 o'clock p.m., on motion of Mr. Jackman, the Committee adjourned to meet again on Wednesday, May 21st., at 10.30 a.m.,

ANTOINE CHASSÉ
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

May 20, 1941.

The Standing Committee on Railways and Shipping met at 11 a.m. The Chairman, Mr. J. P. Howden, presided.

The CHAIRMAN: Gentlemen, if you will come to order we will proceed. I think, owing to the fact that we are pretty well on in the session and we have a good deal to cover, we will dispense with any preliminary remarks this morning. If anybody here has a motion to present it would be in order to receive it now.

Mr. DONNELLY: In order to expedite matters and so that we will have no trouble in getting a quorum probably it would be well to have a motion asking that the quorum be reduced from twelve to eight. I therefore move that the quorum be reduced from twelve to eight.

Mr. McCULLOCH: I second it.

Motion agreed to.

Mr. DONNELLY: I would also move, Mr. Chairman, that the committee be empowered to print from day to day 500 copies in English and 200 copies in French of the minutes and proceedings.

Mr. EMMERSON: I second it.

Motion agreed to.

Mr. DONNELLY: Mr. Chairman, as we are getting on to the end of the session and as we may have difficulty in finding time to carry on the work we have to do I think it would be well if we had a motion authorizing the committee to sit when the house is in session. Therefore I make that motion.

Mr. HANSON: I second the motion.

Motion agreed to.

Mr. JACKMAN: I hope that you will not let it conflict too much with the sittings of the house. It might be better if we started at 10 o'clock and have a full morning rather than take too long a time in the afternoon.

The CHAIRMAN: I think perhaps it is up to the members to decide. The officials are all here and have been here for some time. Is that merely a suggestion, Mr. Jackman, or do you want to make it in the form of a motion?

Mr. BERCOVITCH: I think 11 o'clock is early enough.

Mr. LOCKHART: There are a number of committees sitting. I think the suggestion is very good. You have cut down the quorum now. There are some members of this committee on other committees, and therefore it seems to me some consideration at least should be given to the suggestion, by the chairman himself, in calling the meetings.

The CHAIRMAN: I do not think you can leave it to the chairman. I think it is a recognized principle to call these meetings at 11 o'clock. If it is the desire of this committee to meet at 10 o'clock someone will have to make a motion to that effect.

Mr. JACKMAN: Suppose we split the difference. I would move an amendment that the committee sit at 10.30 rather than 11 o'clock.

Mr. NICHOLSON: I second it.

Motion agreed to.

The CHAIRMAN: Now, gentlemen, before we proceed with the deliberations of the committee I think probably it would be desirable for the president of the Canadian National Railways system to present his assistant officials here so that we might have some idea of the name of the gentleman who may be speaking from time to time. It will only take a short time, and I will now ask Mr. Hungerford to introduce the gentlemen.

(Mr. Hungerford introduces officials of the Canadian National Railways to the meeting.)

Mr. HUNGERFORD: Mr. Chairman, we have really three reports before us, that of the Canadian National Railways, the Canadian National (West Indies) Steamships, Limited, and the Trans-Canada Air Lines. It would be a matter of convenience to the officers if in this instance we could deal with the steamship or air lines first.

The CHAIRMAN: Is there any discussion on the matter or shall we adopt that procedure, gentlemen? The suggestion is made in order to expedite the work of the committee and for the convenience of the officials of the railway. If there is no objection then we will proceed with the consideration of the annual report of the Canadian National Steamship Lines Limited. It is customary to have it read. Would you like to have it read as usual? That is really the quickest way to deal with it.

Mr. ARMSTRONG:

ANNUAL REPORT

MONTREAL, 19th March, 1941.

The Honourable P. J. A. CARDIN, K.C., M.P.,
Minister of Transport,
Ottawa.

SIR,

On behalf of the Directors, I beg to submit the Annual Report of Canadian National (West Indies) Steamships, Limited, for the year ended 31st December, 1940.

It is pleasing to be able to report that the company again had a satisfactory year, notwithstanding the difficulties of operating under wartime conditions.

The comparative operating results are as follows:

	1940	1939	Increase	Per Cent
Operating revenues..	\$5,750,341 42	\$4,642,306 28	\$1,108,035 14	23·87
Operating expenses..	4,545,306 51	4,018,446 85	526,859 66	13·11
Operating profit....	<u>\$1,205,034 91</u>	<u>\$ 623,859 43</u>	<u>\$ 581,175 48</u>	

Operating revenues increased during the year \$1,108,035. Freight revenue increased \$1,550,703; passenger revenue decreased \$502,449; miscellaneous revenue increased \$59,781. There was a substantial increase in both export and import tonnage, which is reflected in the increase in freight revenue. Passenger revenue continued to be adversely affected by the war.

Operating expenses increased \$526,860, brought about by the increased costs of operating under war conditions and the additional tonnage handled. The increased expense was 13.11 per cent as compared with an increase of 23.87 per cent in revenue.

After providing for bond interest, but before depreciation and interest on Government advances, there was available \$666,101.57, which will be paid to the Government as interest on advances (current and arrears). The corresponding figure in 1939 was \$153,859.43.

The vessels of the fleet were operated during the year without serious casualty and have been maintained in a high state of efficiency.

The Directors again take the opportunity of expressing their appreciation of the loyal and efficient services rendered by the company's officers and employees, particularly under the stress of wartime conditions.

For the Directors,

S. J. HUNGERFORD,

President.

The CHAIRMAN: Is there any discussion?

Mr. LOCKHART: Have any steamships been taken from the company? Has the use of any of these steamships been taken from the company and used specially for war purposes?

Mr. VAUGHAN: I do not know how much of this ought to go on the record, because our boats, so far as movements are concerned, are governed by instructions from the admiralty. One boat has been taken. I do not think it is desirable to place this on the record, but one boat has been requisitioned by the British admiralty.

Mr. LOCKHART: Just one?

Mr. VAUGHAN: Just one so far.

The CHAIRMAN: I think it would be well to remember the suggestion that has been thrown out. The operation of these lines is subject to the admiralty and possibly it would be as well if some facts were not asked for.

Mr. LOCKHART: Not to be asked for?

The CHAIRMAN: Not to be answered, if you like.

Mr. LOCKHART: The suggestion is quite in order, but I do not agree with the suggestion that these questions should not be asked. You mention an amount here of \$666,101.57, which will be paid to the government as interest on advances (current and arrears). What is the total amount of arrears outstanding prior to the presentation of the report?

Mr. COOPER: On December 31, 1940, the total interest arrears amounted to \$1,870,726. That is shown on the balance sheet on page 7.

The CHAIRMAN: We will go through the balance sheet, of course.

Mr. LOCKHART: What amount has been paid on the arrears of \$666,000, etc.?

Mr. COOPER: \$1,870,000 owing is after paying \$666,000.

The CHAIRMAN: Shall we proceed? Do you want to go through the balance sheet? Shall we have it read? It has been usual in the past to have it read.

Mr. HANSON: I think it is a good thing to have it in the record.

Mr. ARMSTRONG: Pages 6 and 7 are the consolidated balance sheet as of December 31, 1940. Shall we read these items?

The CHAIRMAN: I think you might as well.

CONSOLIDATED

AT DECEMBER

ASSETS

Investments:

Vessels	\$ 10,969,329 06	
Plant and Equipment	8,274 78	
Office Furniture and Fixtures	18,062 45	
	<hr/>	\$ 10,995,666 29

Current Assets:

Cash in Banks	\$1,104,189 50	
Special Deposits	2,821 50	
	<hr/>	\$ 1,107,011 00
Accounts Receivable	399,965 74	
Agents	315,261 10	
Inventories of Stores and Supplies	26,384 64	
Advances to Captains, Crews and Agents	12,728 29	
Amount due from Canadian National Railways		
Joint Insurance Fund	5,383 21	
	<hr/>	\$ 1,866,733 98
Insurance Fund		1,948,994 00
Discount on Funded Debt		43,838 87
Discount on Capital Stock		40,000 00
		<hr/>

\$ 14,895,233 14

BALANCE SHEET

31st. 1940

LIABILITIES

Capital Stock:			
Authorized and issued 400 Shares of \$100.00 each	\$	40,000	00
Funded Debt:			
25 Year 5% Dominion of Canada Guaranteed Gold Bonds due in 1955..		9,400,000	00
Dominion of Canada Account:			
Notes Payable Secured by Mortgages on Vessels....	\$	933,071	83
Advances:			
Capital	\$	713,619	23
Working Capital		450,000	00
Deficits		5,059,960	94
	\$	6,223,580	17
Interest Accrued Unpaid		1,870,726	20
	\$	9,027,378	20
Current Liabilities:			
Dominion of Canada	\$	666,101	57
Canadian Government Merchant Marine, Limited			
(old account)		10,543	19
Accounts Payable		320,068	44
Interest Matured Unpaid		2,821	50
Unmatured Interest Accrued		156,666	67
Passage Money paid in Advance		77,771	62
Insured Loss Unpaid		86,947	18
			1,320,920 17
Insurance Reserve			1,948,994 00
Unadjusted Credits			37,233 34
Uncompleted Voyages—Suspense			84,917 70
Accrued Depreciation			3,719,788 60
Profit and Loss—Deficit			10,683,998 87
			\$ 14,895,233 14

CONTINGENT LIABILITY—No contingent reserve is accrued for pensions. Pension payments are charged currently to operating expenses.

T. H. COOPER,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the Canadian National (West Indies) Steamships, Limited and Subsidiary Companies for the year ended the 31st. December, 1940.

We certify that, in our opinion, the above Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the Steamships as at the 31st December, 1940 and that the relative Income and Profit and Loss Accounts for the year ended the 31st December, 1940 are correctly stated.
18th March, 1941.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

Mr. BERCOVITCH: What is that "special deposits, \$2,821.50"?

Mr. COOPER: The amount in the bank to pay bond coupons.

Mr. BERCOVITCH: They have not been paid?

Mr. COOPER: Not presented; they are overdue. You see them on the opposite side of the balance sheet as "interest matured unpaid, \$2,821.50," and a corresponding amount is in the bank to meet these coupons as and when they are presented.

Mr. LOCKHART: What is meant by the item "agents, \$315,261.10"?

Mr. COOPER: Representatives in the various ports such as Halifax, Bermuda and the islands.

Mr. LOCKHART: Is it equipment at the ports?

Mr. COOPER: Not equipment, no. We have agents at the different ports and these are the amounts outstanding in the agency account.

Mr. BERCOVITCH: The amount the agents have on hand?

Mr. COOPER: Yes, due by the agent to the company.

Mr. ROSS: It is much larger than it was in 1939.

Mr. COOPER: Bigger business, for one thing.

Mr. JACKMAN: Are these agents employees of the company or independent?

Mr. COOPER: In some cases they are employees of the company. For instance, at Halifax; but at most of the islands they are commission agents.

Mr. JACKMAN: There is no credit risk particularly in connection with them?

Mr. COOPER: I do not think so.

Mr. BERCOVITCH: That insurance, \$1,948,994.00 is made up by salaries of the employees, contributions by the employees?

Mr. ARMSTRONG: No, that is the insurance fund not the pension fund.

Mr. BERCOVITCH: Insurance by whom, the Canadian Steamship Company?

Mr. ARMSTRONG: It is the insurance fund of the Canadian National.

Mr. COOPER: The Canadian National charges itself with premiums for insurance which go into this fund.

Mr. ROSS: They have increased by about \$400,000.

Mr. COOPER: We have been paying in more insurance on account of war risk.

Mr. HAZEN: How many vessels have you valued at \$10,000?

Mr. VAUGHAN: It is shown on page 10, eleven vessels.

Mr. JACKMAN: You do not carry special war risk insurance at the present time?

Mr. COOPER: We charge ourselves or our operations with war risk insurance through our own self insurance fund.

Mr. DONNELLY: How much have you raised?

Mr. COOPER: We charge ourselves at the going war risk rate. It changes from quarter to quarter. At the present time I think it is two per cent.

The CHAIRMAN: Gentlemen, I might suggest it is a little difficult to hear. This is a big room and everybody wants to hear, and I would therefore suggest that you speak louder.

Mr. JACKMAN: Have you had any claims against that fund because of the war?

Mr. COOPER: No, sir, no war risk claims.

Mr. JACKMAN: That accounts, I suppose, for the rather favourable working capital position at the present time?

Mr. COOPER: Yes, sir. We had no claims for war risk in 1940, which, of course, was very fortunate.

Mr. ROSS: May we hope that 1941 will be as fortunate.

Mr. HANSON: You have had none in 1941 either?

Mr. COOPER: No, not war risk.

Mr. JACKMAN: I understand you have more working capital than you actually require unless you have a big claim upon it for replacement or something.

Mr. COOPER: Yes, I think that is the possibility Mr. Jackman.

Mr. JACKMAN: You are not increasing the fleet at all at the present time and have not since the war? You have no intention of increasing the fleet just now?

Mr. VAUGHAN: I think it will probably decrease because confidentially some of our boats are likely to be taken from us.

Mr. JACKMAN: Do not answer this question if it is not proper. Are the railway operating the same lines that they had prior to the war with the exception—

Mr. VAUGHAN: Yes, these are all the routes covered by the Canada-West Indies agreement. These boats are all operating on regular schedules so far as we can keep them regular on these routes.

Mr. JACKMAN: Are the boats fully occupied with the bottoms pretty well filled both ways on the old lines?

Mr. VAUGHAN: Yes, they are doing pretty well. There is more general merchandise going from Canada to the West Indies now because the British trade is shut off to a large extent and traffic likely to be increased rather than decreased.

Mr. JACKMAN: It may be said then that the most effective use possible, in view of the war emergency, is being made of this fleet at the present time?

Mr. VAUGHAN: I think so, undoubtedly.

Mr. JACKMAN: Mr. Chairman, is there any necessary connection between the deficit of \$5,059,960.94 and the profit and loss deficit of \$10,683,998.87? How does the deficit of five million odd occur? What is the history of that account?

Mr. COOPER: The deficit of \$10,683,000 is made up of accrued depreciation \$3,719,000; interest unpaid due the government \$1,870,000, and the actual cash deficits incurred in operation, \$5,059,000, which cash deficits are being advanced by the government.

Mr. JACKMAN: The profit and loss deficit is the accretion from year to year of the losses sustained by the line. Just what is the nature of that deficit of \$5,059,960.94?

Mr. COOPER: That is the amount of the deficit for which we have had to borrow in cash from the government. To that you must add accrued depreciation which, so far as we are concerned, is not a cash item; it is a book-keeping entry, but it is chargeable to the P & L account. It is not borrowed from the government. In addition you have the interest due the government which again is not a cash item. You have the one cash item of five million, the accrued depreciation, which is a book-keeping item of \$3,719,788.60, and the accrued interest, which is a book-keeping item, of \$1,870,726.20. Those together make up the book deficit.

Mr. JACKMAN: In other words the five million deficit under "Advances" goes to make up part of the Profit and Loss deficit?

Mr. COOPER: Yes; it represents the portion of the total deficit which has been lost in operations and for which we have had to borrow from the government.

Mr. BERCOVITCH: So that really your deficit is five million instead of fourteen million?

Mr. COOPER: The cash deficit, yes, but the book deficit is ten million.

Mr. BERCOVITCH: On accrued depreciation did you pay any more this year than in former years?

Mr. COOPER: No; we carried on at the regular rate—3 per cent.

Mr. ROSS: Depreciation is less in 1940 than it was in 1939?

Mr. COOPER: On the balance sheet?

Mr. ROSS: Yes.

Mr. COOPER: No; in 1939 the depreciation was \$3,390,000 and at the end of 1940 it was \$3,719,000.

Mr. ROSS: Yes, quite right. It is less in 1940.

Mr. COOPER: No, sir, it is greater.

Mr. NICHOLSON: Have you the corresponding item in 1939 for this five million deficit?

Mr. COOPER: The cash deficit at the end of 1940 is similar to that at the end of 1939, because we did not have any deficit in 1940; we had a surplus, and the surplus we paid over to the government.

Mr. NICHOLSON: The item has not changed.

Mr. COOPER: There has been a refund to the government every year since 1936.

Mr. ROSS: As I read the report the accrued depreciation in 1939 was \$3,390,000, and in 1940 it was \$3,719,000. I claim it is less in 1940 than in 1939. I may have the figures mixed, but apparently not.

Mr. COOPER: \$3,700,000 is greater than \$3,300,000.

Mr. ROSS: Oh, yes, that is quite right.

Mr. HAZEN: For how many years has this deficit been accumulating?

Mr. COOPER: It goes back to the beginning of the service which was in 1929. In the first year it was \$862,000. There is a series of red figures up to the end of 1935; then we began to make operating profits. In 1936 the figure was \$87,000; in 1937 it was up \$188,000; in 1938 it was \$276,000; in 1939 it was \$153,000, and in 1940—\$666,000.

Mr. McCULLOCH: It does not take long to clear it off.

Mr. COOPER: The trouble is we have these big arrears of interest which we have to discharge before we can even think of paying back the advances for the deficit.

Mr. NICHOLSON: What was the profit and loss deficit as at 31st December, 1939?

Mr. COOPER: The book deficit was \$10,671,264.

The CHAIRMAN: Are there any further questions? If not, will you please proceed, Mr. Armstrong?

CONSOLIDATED PROFIT AND LOSS ACCOUNT

At 31st DECEMBER, 1940.

Balance at 31st December, 1939—Deficit.....	\$10,671,264 89
Loss as per Income Account, year 1940.....	12,733 98
Balance at 31st December, 1940—Deficit.....	<u>\$10,683,998 87</u>

9

	Year 1940	Year 1939
Operating Revenue:		
Freight	\$4,854,623 81	\$3,303,920 51
Passenger	565,269 13	1,067,718 55
Baggage, Express and Miscellaneous....	85,443 52	66,899 79
Subsidies	201,564 96	203,767 43
Charter	43,440 00
Total	\$5,750,341 42	\$4,642,306 28
Operating Expenses:		
Closed Voyages.....	\$4,422,651 63	\$3,856,918 01
Lay Up Expense.....	15,763 99
Management and Office Salaries.....	88,974 81	82,933 33
Rent and Taxes.....	9,466 94	9,466 97
Office Supplies and Expenses.....	22,295 03	22,131 19
Advertising	3,579 00	32,987 86
Interest and Exchange.....	1,660 90	1,754 50
Total	\$4,545,306 51	\$4,018,446 85
Operating Ratio	79.04%	86.50%
Operating Profit.....	\$1,205,034 91	\$ 623,859 43
Interest on Bonds held by Public.....	470,000 00	470,000 00
Exchange on U.S. Funds.....	68,933 34
	\$ 666,101 57	\$ 153,859 43
Other Charges:		
Amortization of Discount.....	\$ 3,094 44	\$ 3,094 44
Interest due Government.....	346,661 24	346,365 75
Depreciation on Vessels.....	329,079 87	328,828 73
Net Income— <i>Deficit</i>	\$ 12,733 98	\$ 524,429 49

Mr. COOPER: There has been a little redistribution there, but if you notice the total revenue shown in the 1940 report for the year 1939 is \$4,642,-306.28. That is the same figure as was reported in 1939. We have taken some of the accounts which were included in passenger revenue and other revenues and for better comparison have included in those years baggage, express and miscellaneous.

Mr. ROSS: Yes, I see.

Mr. BERCOVITCH: What are those subsidies?

Mr. COOPER: They are the payments by the West Indian Islands under the trade agreement. They amount to forty-five thousand five hundred pounds a year.

Mr. BERCOVITCH: Paid by the West Indian government?

Mr. COOPER: Bermuda, Jamaica, the Leeward Islands, the Windward Islands, Barbados, Trinidad, the Bahamas and British Honduras.

Mr. POULIOT: What is the total staff in Montreal?

Mr. VAUGHAN: The total staff in Montreal is 65.

Mr. POULIOT: How many bilingual employees have you, meaning by that those speaking a language other than English, either Spanish or French?

Mr. VAUGHAN: I could not tell you that.

Mr. POULIOT: You know that there are very few who are bilingual on the staff. I do not know that there is even one.

Mr. VAUGHAN: Oh, yes

Mr. POULIOT: If there is one, there are not two.

Mr. VAUGHAN: There are a number—

Mr. POULIOT: You know that there are very few. I know that very well. For many years there were only two who could speak French as well as English, and only one of them could speak Spanish and write it. You have some trade with people speaking Spanish?

Mr. VAUGHAN: Yes, we have.

Mr. POULIOT: And it is urgent to have somebody who is familiar with the language.

Mr. VAUGHAN: We have those who can speak well enough to get along. We never find ourselves under any handicap on account of the language. I think we have more French-Canadians than you have been informed of.

Mr. POULIOT: Could you give us precise data regarding that?

Mr. VAUGHAN: We will be glad to.

Mr. POULIOT: With regard to the Quebec office, who is in charge?

Mr. VAUGHAN: Mr. Trueman is in charge.

Mr. TEAKLE: We have a young man there named Lonergan who speaks French.

Mr. POULIOT: Yes, but the manager himself does not speak French.

Mr. TEAKLE: We do not have any difficulty there.

Mr. POULIOT: No, but you do not make progress. All the business is neglected on that account. It is impossible for one to talk with the manager except through an interpreter who is a young lad. In Quebec city it is tough.

Mr. TEAKLE: I do not quite see the point, because our business in Quebec has been increasing.

Mr. POULIOT: If you do not see it you are the only one; everybody in the room sees it.

Mr. TEAKLE: I happened to be a clerk there myself.

Mr. POULIOT: Have you anyone in Montreal who speaks French?

Mr. TEAKLE: I think our assistant freight traffic manager, Mr. Gauthier, is a French-Canadian, and we also have two other boys who speak French, Belanger and Pilon.

Mr. POULIOT: How old are they?

Mr. TEAKLE: I suppose they are lads of 23 or 24 years of age. There are others who can speak French. We have no difficulty there. A good many of us can read French, but we may be a little nervous about the proper pronunciation.

Mr. POULIOT: Parisian French. We call it Parisian French when it is no good.

Mr. TEAKLE: Perhaps it might be of interest to you if I told you that my oldest son completed his education in Paris and he teaches French in the High School in Montreal.

Mr. POULIOT: I congratulate you.

Mr. ARMSTRONG: Page 10 shows a list of the fleet, as well as the gross and deadweight tonnages at the end of the year.

FLEET AS AT 31st DECEMBER, 1940

	Gross Tonnage	Deadweight Tonnage
Lady Drake.....	7,985	6,370
Lady Hawkins.....	7,989	6,370
Lady Nelson.....	7,970	6,370
Lady Rodney.....	8,194	4,665
Lady Somers.....	8,194	4,665
Cathcart	3,708	2,950
Cavelier	3,663	2,950
Chomedy	6,136	8,600
Colborne	6,230	8,650
Cornwallis	5,458	8,390
Connector	1,789	2,781
	<hr/> 67,316	<hr/> 62,761

Mr. POULIOT: What is the freight? Is it bananas or fruit and so on; what type of tonnage is that?

Mr. VAUGHAN: It is quite a lengthy statement. We shall be glad to produce it.

Mr. HAZEN: There is a big decrease in the account for advertising; is that on account of the war?

Mr. VAUGHAN: There are very few passengers travelling now, and there is not much use in advertising for them. There is a small advertising account because we have to advertise freight sailings and passenger sailings for the convenience of the public.

Mr. HAZEN: Has there been any increase in passenger sailings from Canada to the West Indies on account of the exchange difficulties with the United States and the fact that people have to get passports?

Mr. VAUGHAN: No, I would not say so. Of course, our passenger business is very much less than it was before the war, but I think our passenger business last year increased a little. There is more inter-island business because there are not the English boats, due to the war. We have carried some troops to the various islands for the Canadian government, but there are not very many people travelling down there for pleasure at the present time.

Mr. HAZEN: There are a good many Canadians who might want to go to Florida and other places in the United States in the winter time, at least they should not go there if they do, but they probably would like to go away somewhere; is there any possibility of developing that service to the West Indies?

Mr. VAUGHAN: There are a few people who go to Bermuda and Nassau, but not very many.

Mr. POULIOT: Would the committee be agreeable to have a detailed statement on freight published as an appendix to this report?

The CHAIRMAN: It is a matter for the committee.

Mr. TEAKLE: Might I say that if this request is to be granted by the committee I would ask that it be kept private because we are giving away to our competitors what we are doing, and I do not think we should do that.

Mr. POULIOT: That is all right.

Mr. HAZEN: In 1940-41 the dominion government advanced \$21,000 to the Canadian National Steamships Limited payable on demand as shown on page 51 of the estimates. Where is that shown in the statement here that we have?

Mr. ROSS: What is the amount?

Mr. HAZEN: \$21,000.

Mr. COOPER: The item of \$21,000 was a provision in the estimates, but no sum was drawn down under the appropriation; it was voted but not used.

Mr. HAZEN: You did not need it?

Mr. COOPER: No, sir.

Mr. JACKMAN: At the moment under the West Indies agreement are you allowed to raise your rates during this time, or are they frozen?

Mr. COOPER: I am sorry, I did not hear you.

Mr. JACKMAN: Have you been able to raise your freight rates during the last year or two, or are you bound to a certain schedule?

Mr. VAUGHAN: We cannot raise our freight rates without the approval of the Department of Trade and Commerce at Ottawa. There has been one increase in freight rates since 1939.

Mr. JACKMAN: The rate is probably not as high as it would be if you were free of the agreement?

Mr. VAUGHAN: We could get higher rates than we are asking to-day if we set out to get them, I think.

Mr. JACKMAN: I am still a little concerned to know whether or not these boats could be used on trans-Atlantic voyages rather than on the old route? Is there anything in the agreement which cannot be amended by a waiver or on the part of our government and the West Indies government?

Mr. VAUGHAN: They are getting full cargoes both ways. They are largely engaged coming north at the present time under an arrangement with the sugar controller, and the sugar controller is having the greatest difficulty in getting tonnage to bring sugar north as it is, and he could not bring in the requirements of Canadian sugar if it were not for those boats.

Mr. JACKMAN: If I recall correctly, a good many of the lake boats have been taken for trans-Atlantic work, and I was wondering whether or not one boat from this service would be a fair sacrifice, shall we call it, for the more dangerous voyages?

Mr. VAUGHAN: These boats are all subject to call by the shipping controller at Ottawa. We sent the Cornwallis to the U.K. last winter.

Mr. SHAW: We note that the exchange on United States funds in 1940 was in excess of \$68,000 without any corresponding item in 1939. What is the explanation?

Mr. COOPER: The answer to that is that our interest was paid on the 1st October, 1939, it was paid before the United States exchange went to a premium.

Mr. POULIOT: Will you be kind enough to tell me what is the eastern service and what is the western service?

Mr. ARMSTRONG: Those are shown on page 11, I think.

Mr. POULIOT: It is not described as the eastern and the western service.

Mr. ARMSTRONG: The western service is shown first and the eastern service is shown second.

Mr. POULIOT: From Halifax to Saint John?

Mr. ARMSTRONG: The list of the fleet, five Lady boats and six freighters are shown at the top of page 10. "Assignment of the fleet during 1940." The table shows eastern passenger and freight 3 vessels, eastern freight 3 vessels, western passenger and freight 2 vessels, western freight 2 vessels, Kingston, Jamaica and Belize, British Honduras 1 vessel, a total of 11 vessels. "Voyages completed during the year 1940." Eastern passenger and freight 26, eastern freight 23, western passenger and freight 22, western freight 26, Kingston—Belize 25, a total of 122 voyages.

Mr. POULIOT: I do not know yet what is the eastern service and what is the western service.

Mr. TEAKLE: The eastern service is designated as such so as to separate the one from the other. On page 11 it is the service from Halifax—it is the three Lady boats—and from Montreal. If I might explain it this way: we have the five Lady boats; two of the Lady boats hitherto have operated from Montreal in the summer and from Halifax in the winter to Bermuda, Nassau and Kingston, Jamaica. Supplementary to them are two freight boats which operate to Kingston.

Mr. POULIOT: What service do you call that?

Mr. TEAKLE: The western service. That terminates at Jamaica. The eastern service is the one that terminates at Demarara. There are boats operating out of Montreal in summer and Halifax and Saint John in winter, but they do not touch all the ports as do the three Lady boats. These are designated from Halifax and Saint John. In other words, Halifax has a definite eastern service of three Lady boats and Montreal has a definite eastern service of three freight boats, and the western service goes out of Montreal.

Mr. POULIOT: It is an office distinction.

Mr. TEAKLE: No, it was so described in the trade agreement of 1925.

Mr. POULIOT: It is the designation which appears in the agreement.

Mr. TEAKLE: Yes, and geographically the positions are such; the islands south of Bermuda are known as the eastern service, the islands west of Bermuda are known as the western service.

Mr. POULIOT: Thank you.

Mr. JACKMAN: May I revert to the liabilities side of the balance sheet again. There is the item under deficits, under advances of \$5 million odd dollars. Do you charge interest in the books against that?

Mr. COOPER: Yes, 5 per cent.

Mr. JACKMAN: I presume it should be funded if possible. It would be almost an impossibility to work that off even if you enjoyed remarkable prosperity.

Mr. COOPER: I do not think the company should issue securities for operating deficits; I think it should have been contributed by the government and written off.

Mr. JACKMAN: Of course, the government will hold the bag no matter what we call it, but on the books here it is not a current item, it is an advance from the government merely as a bookkeeping claim, I presume, rather than a certificate, and it makes the balance sheet look very badly. On the profit and loss side the deficit has grown to \$10,683,000. You will have interest paid to the government on the moneys which have gone to make up that deficit and

which have been lost, and part of it is included in the \$5 million in the balance which has been advanced by the government. This is interest charged in the books on that.

Mr. COOPER: The item of interest includes not only amounts advanced for deficits but also for capital and working capital. You see under Dominion of Canada account "Notes Payable Secured by Mortgages on Vessels" \$933,000; advances for capital \$713,000; advances for working capital, \$450,000; advances for deficits, \$5,059,000; and interest is accrued on those different items. The amount accrued in 1940 shown in the income statement is \$346,000. In the first place the interest accrued is set up as a liability and would appear in that item at the end of the year amounting to \$1,870,000; but during the year we earned over and above our cash disbursements \$666,000 which we paid off to the government and which they applied to reduce our interest.

Mr. JACKMAN: It can be said that all the money the government has advanced to the steamship lines either by way of capital or working capital or to cover up the deficits is bearing at least a bookkeeping interest charge?

Mr. COOPER: That is so.

Mr. JACKMAN: And last year you more than earned your interest and turned over the whole surplus that you had available out of earnings to the government to cover the current interest on something on back interest?

Mr. COOPER: Yes, that is correct.

The CHAIRMAN: There is an item in the estimates on page 51 in connection with this report, No. 416, \$20,000. Will you o.k. this item in your committee?

Mr. NICHOLSON: Why does this appear if it was not necessary last year?

Mr. COOPER: It is just a general contingency item in case something does crop up. If we do not need it we do not use it. Last year we had \$21,000 and did not use it. This year we are asking for \$20,000 and we may or may not use it. If we need it and there is no appropriation we run into difficulties.

Mr. ROSS: How is that sum of \$20,000 arrived at?

Mr. VAUGHAN: It is just an arbitrary sum. We do not know what we may need; we hope we will not need anything; but somebody may want something done on a boat to carry a few passengers—maybe the government may want it done—and it may be a capital expenditure.

Mr. JACKMAN: With a very comfortable working capital I do not know why you want to set up \$20,000, which is a rather small sum.

Mr. VAUGHAN: We have no authority to make capital expenditures no matter how small they may be.

Mr. JACKMAN: This is not only an authority to make a capital expenditure, it is an authority to draw down that amount of money from a source which is outside of the operation of the corporation. You do not need it very badly, surely?

Mr. VAUGHAN: We hope we shall not have to spend it at all, but it is the customary procedure that has to be gone through. If we need money for capital account it has to be authorized by this committee.

Mr. JACKMAN: But you are very strong as far as finances are concerned, and yet you want this authorization to get \$20,000 from the Canadian Treasury, is not that so?

Mr. COOPER: We are giving the government all the money we can.

Mr. DONNELLY: If you needed \$20,000 for a capital expenditure could you not take it out of revenue?

Mr. VAUGHAN: I do not think our accountant would let us charge up anything to operation which should go to capital.

Mr. JACKMAN: If you make any capital expenditure you have to get authorization from the government; are you not allowed \$5,000?

Mr. VAUGHAN: I think there is a small limit.

Mr. COOPER: Not as far as the government is concerned. We are supposed to present a budget to parliament every year which sets out our capital requirements. The requirement is stated in the Canadian National-Canadian Pacific Act of 1936. The Act does not refer to the West Indies, but it gives a general direction as to the control between the government and the railways and shipping. What I am saying is that although the Canadian National-Canadian Pacific Act does not apply to the steamships we apply its principles to all our operations. We are now asked if we could not finance capital expenditures, after it is authorized, out of working capital if our working capital is sufficient; what we would prefer to do would be, if our working capital is more than sufficient for current operations, to make a refund of the surplus and still draw down our capital expenditures so that the government books as well as our own will show directly the investments of the Crown in this service.

Mr. JACKMAN: Yes. I can see that it does not make very much difference.

Mr. COOPER: No.

Mr. JACKMAN: On the other hand, every year you are setting up a certain amount for insurance—\$1,948,000 at the present time—what do you do with that fund if you want to replace a capital ship which is lost or damaged by fire or marine casualty; do you have to get authorization to make use of that fund?

Mr. COOPER: No, we draw on the fund. In 1939 the fund stood at \$1,500,000; it has increased during the year by \$448,000 to \$1,948,000; premiums during the year, \$430,000; income from investments \$78,000. We had \$58,000 of losses and \$2,400 of administration expense. So \$58,000 of losses were taken out of the fund in 1940.

Mr. JACKMAN: And replace with equivalent assets?

Mr. COOPER: No, these were claims for cargoes.

Mr. JACKMAN: Paid to outsiders.

Mr. COOPER: Yes. Well, and the cost of repairing the ships. There would be something for repairs to ships. The arrangement is precisely the same as if our insurance were carried with outside underwriters; we charge the same premiums and make the same claims as if we were dealing with an outside underwriter.

Mr. JACKMAN: In regard to this insurance, you insure yourselves too?

Mr. COOPER: As far as the vessels themselves are concerned we insure against any damage or loss.

Mr. JACKMAN: Damage to yourself.

Mr. COOPER: To the ships. In addition, of course, the shippers carry their own insurance on the cargoes, but in certain events the owner—that is the ship owner—is responsible if negligence can be shown, and we insure against that hazard.

Mr. JACKMAN: The \$78,000 you have from investment in that fund, where is that included in the assets side—the \$78,000 income from investment must represent a figure of a million and a half or so?

Mr. COOPER: It is included in the figure of \$1,948,000.

Mr. JACKMAN: What type of security are these investments?

Mr. COOPER: They are mostly direct government obligations or obligations guaranteed by the government. Broadly speaking that is how that fund is invested. There will be some provincial, I think, and a few municipal bonds; but it is very well invested. It is invested jointly with the insurance fund of the Canadian National Railways.

Mr. JACKMAN: Inasmuch as you are paying to the government five per cent interest on advances from the government—you are probably not realizing that much on investments in this fund—why is it not possible to use that money to repay advances to the government? At the same time we must bear in mind you may have a call on that, if you lost a ship. Is there any way of saving a differential between 3, 3½ and 4 per cent that you perhaps may earn on the investment and the 5 per cent you are paying to the government in advances? Is there not a possible saving there?

Mr. COOPER: It would destroy the insurance fund.

Mr. JACKMAN: It does violate the integrity of the fund to some extent—

Mr. BERCOVITCH: To a considerable extent.

Mr. JACKMAN: At the same time this whole company is so bound up with the government I should think it might work in favour of the company to repay the 5 per cent loan in place of receiving 4 per cent on the retention of the fund.

Mr. COOPER: I don't think the government is justified in charging us 5 per cent in the first place.

Mr. JACKMAN: But it does.

Mr. COOPER: But it does.

The CHAIRMAN: Shall the item carry?

Mr. LOCKHART: No.

Mr. COOPER: There is no great harm, as I see it, with regard to these items between the government and the company. We give the government all the money we can earn; we cannot do any better than that. If you agree with the principle of self insurance you cannot begin to use the fund to pay your interest account.

Mr. POULIOT: This is what strikes me: the interest due the government is \$346,000. You have a deficit of \$12,700 and you ask for \$20,000. Well, now, you pay the government \$326,000—

Mr. COOPER: No, we paid them \$666,000.

Mr. POULIOT: Yes. That is all right. There has been a deficit fund since the start?

Mr. COOPER: Yes.

Mr. POULIOT: You pay interest on that?

Mr. COOPER: Yes.

Mr. POULIOT: Besides the interest on bonds?

Mr. COOPER: Yes.

Mr. POULIOT: These are two different matters.

Mr. COOPER: Yes.

Mr. POULIOT: Did the Canadian National Steamships approach the government for reduction of interest on advances, if not on bonds? I understand it is very difficult for you to ask for a reduction on bonds. They are in the hands of third parties, but as to the accumulated deficit, did the company approach the government for a reduction of interest that would prevent the placing of an item like \$20,000 in the estimates?

Mr. COOPER: We did.

Mr. POULIOT: Did you approach them?

Mr. COOPER: Yes, sir.

Mr. POULIOT: What is the interest now?

Mr. COOPER: Still 5 per cent.

Mr. POULIOT: You did not secure any reduction?

Mr. COOPER: No. I think at one time it was 6 per cent but they reduced it to 5 per cent.

Mr. POULIOT: It was reduced to 5?

Mr. COOPER: I think so.

Mr. POULIOT: Did you ask them to reduce it to $4\frac{3}{4}$ per cent to wipe out the deficit?

Mr. COOPER: I suggested at one time it should be written off altogether, but the answer we received was to go on accumulating 5 per cent interest.

Mr. POULIOT: Will you ask it again?

Mr. COOPER: Perhaps the committee might make a recommendation.

Mr. VAUGHAN: I should like to point out these deficits were incurred in the early stages of the Canadian National Steamships. Before that the government paid a subsidy of approximately \$500,000 a year to a company for operating four or five little slow boats.

Mr. POULIOT: The last two years were the best since the company has been operating, were they not?

Mr. VAUGHAN: No.

Mr. COOPER: 1940 was the best year we have had, yes.

Mr. POULIOT: 1939 was the next best?

Mr. COOPER: No, I think the year before.

Mr. VAUGHAN: 1938 was the next best.

Mr. COOPER: 1938 was a little better than 1939.

Mr. LOCKHART: You anticipate 1941 will be equally good?

The CHAIRMAN: Shall the item carry?

Mr. COOPER: It is a long time between now and the end of 1941.

Mr. LOCKHART: In the light of the financial statement and the possibilities for good returns during the remainder of the year would it not be possible for us to lead the way so that the public might be relieved of this \$20,000? Would it not be possible to delete that for this year? Instead of following the practice of peace time and asking for amounts of money that apparently are not going to be needed, would it not be possible for us to delete that amount this year?

Mr. COOPER: From our point of view it would be quite all right. It is a matter for the government to pass on. It is not for the company to say that.

Mr. LOCKHART: The public sees this item in peace or war and they wonder why, in the light of your financial statement, this amount could not be deleted for one year at least.

Mr. POULIOT: Then Mr. Cooper, with regard to depreciation, how is that carried out? Is it established on the same basis as in previous years?

Mr. COOPER: Yes.

Mr. POULIOT: Do you take into account the appreciated value of your boats on account of the war in establishing depreciation?

Mr. COOPER: No.

Mr. POULIOT: You are wrong there. Your ships have more value now than they had two years ago.

Mr. COOPER: We do not depreciate against the cost of replacing these ships; we depreciate against the original cost of the ships. We are supposed to recover from operations the amount of money which is invested in the ships. The amount which is invested is the original cost, not replacement cost.

Mr. POULIOT: Yes, I know, but the value of these ships is higher now than it was two years ago.

Mr. COOPER: Undoubtedly.

Mr. POULIOT: You do not take that into account in establishing depreciation?

Mr. COOPER: No, sir, I do not think it is ever done.

Mr. POULIOT: You do not think it should be mentioned in the report, that although the depreciation is established on the old basis of so much the value of the ship is higher now than it appears according to the original cost.

Mr. COOPER: No, sir; I think that is evident.

Mr. POULIOT: It is evident?

Mr. COOPER: Yes, sir.

Mr. POULIOT: What would be the value of the ships now, having regard to present business conditions, about twice as much?

Mr. COOPER: I do not think it is possible to say. The British government have made some very elaborate studies of values of ships which have been requisitioned by them; but I do not think we can value these ships ourselves. If we could I do not think that we would be serving any very useful purpose other than satisfying our curiosity.

Mr. POULIOT: We would know what we have in hand.

Mr. JACKMAN: You would have to change it if you ran into a depression a few years hence. I think it would be better to keep a consistent value, whether cost value or some value you fix it at, and depreciate steadily from that rather than establish it on another basis having a high value to-day and a lower value because of a depression or some other reason to-morrow.

Mr. POULIOT: This is the first theoretical question we have had since the beginning of the session.

Mr. JACKMAN: May I ask what the rate of depreciation is on the investment—chiefly in vessels—of \$10,995,000 on which you wrote off \$329,000 odd last year, about 3 per cent?

Mr. COOPER: Three per cent.

Mr. JACKMAN: That is considered a fair rate for ships?

Mr. COOPER: Yes; we gave the ships a 25-year life and a 25 per cent salvage, and that produces 3 per cent.

Mr. JACKMAN: Straight line depreciation method of 3 per cent a year?

Mr. COOPER: Yes.

Mr. HAZEN: Did I understand you to say in your opinion the government was not justified in charging 5 per cent interest on advances made? It is sometimes a little difficult to hear here, but I thought you said that.

Mr. COOPER: I would not like to be on record as expressing an opinion against the policy of the government. What I wish to say is that it is the decision of the department—I suppose representing the government—that the company should continue to accrue interest on these advances at the rate of 5 per cent.

Mr. HAZEN: At one time you did ask that the interest be reduced.

Mr. COOPER: We suggested that it be reduced or cancelled.

Mr. HAZEN: When was that?

Mr. COOPER: I think it is four or five years ago.

Mr. HAZEN: You have not applied since that time to have it reduced?

Mr. COOPER: It has been mentioned informally.

Mr. LOCKHART: Frowned on.

Mr. COOPER: It is government policy, and I suggest it is not for the company to say.

Mr. LOCKHART: What do you think would be a fair rate of interest?

Mr. COOPER: I do not believe, in view of all the conditions, that we should be called upon to pay interest where there is not a revenue-producing asset. I think we can properly charge ourselves with interest on moneys against which we have an asset which is capable of earning interest. A deficit has no power to earn any return and it is just cluttering up the books so far as I am concerned to have it accrue interest.

Mr. POULIOT: Who are your competitors?

Mr. TEAKLE: Our main competitor is the Alcoa line, previously known as Ocean-Dominion line, out of the St. Lawrence and Halifax, the Pickford and Black line, and some other lines out of Halifax. If you give very much information out you are liable to get into difficulties. We have always made it a point, as any good steamship company does, to keep details of that kind private.

The CHAIRMAN: Shall the item carry?

Mr. DONNELLY: I have one question to ask. You have an insurance sum of \$1,948,991. That is your insurance fund. You have it invested in bonds, I presume?

Mr. COOPER: Yes.

Mr. DONNELLY: Can you tell me what those bonds are and the amount of each?

Mr. COOPER: I think there are about thirty different kinds of bonds.

Mr. DONNELLY: Have you just dominion and provincial bonds as a rule?

Mr. COOPER: No. There are quite a number altogether, including the railway and the West Indies fund. The amounts altogether are \$14,000,000 of securities. \$7,700,000 are system securities, \$4,500,000 dominion securities. We have a few provincial securities and some municipal securities that I prefer not to read.

Mr. DONNELLY: I was just referring to the \$1,000,000 odd in your insurance fund.

Mr. COOPER: There is no steamship fund separate from that of the railway. We keep the two funds as one and we make an accounting division of it for the purpose of setting up accounts of the steamship company separate from from those of the railway.

Mr. BERCOVITCH: Do all your bonds bear interest?

Mr. COOPER: Yes, sir.

Mr. BERCOVITCH: I mean, pay interest.

Mr. COOPER: One of the provinces here is not paying interest.

Mr. DONNELLY: What province is that?

Mr. JACKMAN: May I revert to the fact that we pay 5 per cent on the advances from the dominion government and earn only from 3 to 4 per cent on some of these bonds. It perhaps would not make very much difference if all bonds held were dominion obligations. It would simply be washed out so far as the dominion was concerned, but once you go outside the dominion field and go into the securities of another taxing authority you are to an extent bonusing those provinces and municipalities to the extent of 1 or 2 per cent. It does not seem to me that it would be a difficult matter to have the dominion government to have an open account to hold this insurance fund of \$1,948,000. Surely the non-government bonds could be liquidated and an open account with the credit of the dominion behind it established for the benefit of the company. I do not think that would be too difficult to arrange; and answering the questions put by Mr. Bercovitch, the integrity of the fund would be completely maintained

if you had an open account with the credit of the dominion government behind it. If you had that you would not have to bother about all this interest and you would save some money.

The CHAIRMAN: That would be at the discretion of the dominion government, would it not?

Mr. JACKMAN: It would require an agreement with regard to their fund, and they would save the company a little money and make a better statement. Once you invest outside the securities of the dominion government or the guaranteed securities you are bonusing another taxing authority, which we as representatives of the Dominion of Canada ought not to do. I do not think it is necessary. Surely the Dominion of Canada would be good enough security for the insurance fund which is being built up from year to year. If you had a claim against the fund you could draw upon this open account with the dominion. If you did that you would save one per cent on \$2,000,000, which would be \$20,000, and that would eliminate the appropriation on page 51, No. 416.

Mr. COOPER: The amount of the provincial securities is not high. Moreover, they were acquired a number of years ago. That is not the present policy, and you might have to sacrifice them now.

Mr. JACKMAN: It would save the company much bother in looking after an investment account. I also suggest it would save you the possibility of loss in the future if you carried on with an open account from the dominion government.

Mr. BERCOVITCH: I think diversification, particularly when it comes to a pension fund and other funds, is absolutely essential.

Mr. JACKMAN: There could be no higher security than the Dominion of Canada.

Mr. BERCOVITCH: I am not suggesting that the Dominion of Canada is not a good security. The Dominion of Canada would do well to diversify its bonds. Diversification is the best method known of investing pension funds and other funds.

Mr. JACKMAN: It would not be out of order for the unemployment insurance fund to invest in securities other than those of the Dominion of Canada. As a matter of fact, it is expressly stated that the Bank of Canada shall handle the whole thing. I believe you would save some money if you adopted the policy I suggest.

Mr. POULIOT: Just import more rum and molasses and you will solve the problem.

Mr. LOCKHART: You are asking the committee to approve of this \$20,000 item?

The CHAIRMAN: Yes.

Mr. LOCKHART: Will somebody not say it would be quite possible to delete that item and strengthen the hands of the minister? I do not think he wants to ask for any more money than possible. In the light of all the circumstances and the information given here would it not be possible to delete that item?

Mr. VAUGHAN: We can certainly delete the item if the government will change its system of accounting. So long as the government requires us to put it in we must show it. Some of these boats may require a new tank or some other new part. That would be capital expenditure which we could not put in without authority.

Mr. POULIOT: Could we change not only the accounting but the accountants of the Department of Finance?

Mr. JACKMAN: In regard to this \$20,000, if you choose to spend that much on a capital item you do not have to get any further authority for the item.

Mr. VAUGHAN: No.

Mr. JACKMAN: It is a contingency item.

The CHAIRMAN: Is the report adopted?

Mr. HANSON: I move the adoption of the report.

Mr. McCULLOCH: I will second it.

The CHAIRMAN: Carried.

It is proposed now to go ahead with the Trans-Canada Air Lines, if that meets with your approval, gentlemen? Mr. Hungerford will introduce the officials of the Trans-Canada Air Lines.

Mr. HUNGERFORD: The gentleman on my left is Mr. D. B. Colyer, Vice-President of Trans-Canada Air Lines, and the gentleman to his left is Mr. W. F. English, his assistant.

Mr. POULIOT: Mr. Hungerford, could you give us some kind of a map showing the Trans-Canada Air Lines?

Mr. HUNGERFORD: Yes, you may have this.

Mr. ENGLISH:

TRANS-CANADA AIR LINES

FOURTH ANNUAL REPORT OF THE DIRECTORS OF TRANS-CANADA AIR LINES YEAR ENDED 31ST DECEMBER, 1940

To the Shareholders:

The Board of Directors submit herewith the Fourth Annual Report of Trans-Canada Air Lines, being for the year ended 31st December, 1940.

Development of the mail, express and passenger services was continued throughout the year. The policy followed was based upon the realization that the operations of Trans-Canada Air Lines are essential to the nation's war-time activity.

The aim has been to make the services of Trans-Canada Air Lines of maximum value to the Post Office Department, to the armed forces, to Canadian business in general and to those firms and individuals engaged particularly in war production.

It is gratifying to note the high degree of co-operation which has developed between Trans-Canada Air Lines and military aviation.

In mail, express and passenger operations there was substantial growth. The number of passengers carried increased by 31,611; express increased by 59,969 pounds, and mail by 360,704 pounds.

The principal events of the year were as follows:

January 1st—Air mail service to Moncton established. The service had previously been confined to training flights on daylight schedule.

February 15th—Passenger service to Moncton established.

April 1st—Second daily trip for air mail and express inaugurated on transcontinental service.

April 14th—Second daily trip for passengers inaugurated on transcontinental service.

July 15th—Air mail and air express service established between Toronto, London and Windsor.

August 1st—Passenger service established between Toronto, London and Windsor. Additional daily trip inaugurated between Toronto, Ottawa and Montreal.

December 1st—Transcontinental trips schedule to operate through Toronto to Ottawa and Montreal.

OPERATING PERFORMANCE

Revenue plane miles flown during the year were 4,770,218 as compared with 2,760,090 in 1939. 97·3 per cent of the scheduled mileage was completed.

The following tables illustrate the expansion of the company's operations:—

ROUTES OPERATED

December 31st, 1940

	Miles
Moncton—Vancouver (via Toronto).....	3,057
Toronto—Windsor	195
Lethbridge—Edmonton	288
Seattle—Vancouver	122
	<hr/> 3,662

SCHEDULED MILES—DAILY

December 31, 1939		December 31, 1940	
Montreal—Vancouver (1 round trip).....	4,822	Moncton—Vancouver (via Toronto) (1 round trip).....	6,114
Moncton—Toronto (1 round trip).....	1,532	Montreal—Vancouver (via Toronto) (1 round trip).....	5,258
Montreal—Toronto (1 round trip)....	676	Montreal—Toronto (2 round trips)...	1,352
Toronto—North Bay (1 round trip)...	374	Toronto—Windsor (2 round trips)....	780
Lethbridge—Edmonton (2 round trips)	1,152	Lethbridge—Edmonton (2 round trips)	1,152
Seattle—Vancouver (2 round trips)...	488	Seattle—Vancouver (2 round trips)...	488
	<hr/> 9,044		<hr/> 15,144

Plane Miles Flown

1940

	Revenue	Training	Total
January	275,223	39,944	315,167
February	259,346	59,131	318,477
March	270,200	85,463	355,663
April	377,711	47,113	424,824
May	432,331	102,790	535,121
June	409,297	36,002	445,299
July	443,933	24,173	468,106
August	488,559	22,384	510,943
September	467,335	25,329	492,664
October	477,705	17,065	494,770
November	440,804	16,529	457,333
December	427,775	12,842	440,617

Year 1940.....	4,770,219	488,765	5,258,984
Year 1939.....	2,760,090	365,303	3,125,393

Hours Flown

1940

	Revenue	Training	Total	Percentage of Scheduled Performance
January	1,733	228	1,961	96·04
February	1,646	342	1,988	98·00
March	1,737	479	2,216	95·00
April	2,354	265	2,619	98·00
May	2,690	576	3,266	100·00
June	2,523	204	2,727	99·00
July	2,753	137	2,890	99·10
August	3,052	125	3,177	99·50
September	2,924	145	3,069	99·00
October	2,970	95	3,065	99·30
November	2,755	94	2,849	93·70
December	2,651	74	2,725	90·60

Year 1940.....	29,788	2,764	32,552	97·30
Year 1939.....	17,403	2,096	19,499	98·10

Plane Miles Flown Since Inception of Operations

	Revenue	Training	Total
Sept. 1, 1937 to Dec. 31, 1937...	26,596	74,372	100,968
Year 1938.....	1,122,179	826,167	1,948,346
Year 1939.....	2,760,090	365,303	3,125,393
Year 1940.....	4,770,219	488,765	5,258,984
	<hr/> 8,679,084	<hr/> 1,754,607	<hr/> 10,433,691

Hours Flown Since Inception of Operations

	Revenue	Training	Total
Sept. 1, 1937 to Dec. 31, 1937...	196	493	689
Year 1938.....	7,266	5,285	12,551
Year 1939.....	17,403	2,096	19,499
Year 1940.....	29,788	2,764	32,552
	<hr/> 54,653	<hr/> 10,638	<hr/> 65,291

Air Mail Service

As of December 31st, 1940, 15,144 miles were flown daily in regular air mail service as compared with 8,188 miles at December 31st, 1939. The increased services during the year, and their effective dates, were:

- January 1st—Montreal—Moncton.
- April 1st—Montreal—Vancouver second schedule.
- July 15th—Toronto—Windsor.

The increase in air mail carried, 1940 over 1939, amounted to 360,704 pounds or approximately 65 per cent.

Mail carried in 1940 was as follows:—

	Pounds
January	64,880
February	63,701
March	64,685
April	57,235
May	76,536
June	68,270
July	78,765
August	86,664
September	86,049
October	94,164
November	90,575
December	95,513
	<hr/> 927,037 <hr/>

During 1940 the air mail rate paid the company by the Post Office Department was 60 cents per plane mile, and this rate will continue until March 31st, 1941, after which there will be a material reduction.

Passenger Service

Revenue passengers numbering 53,180 were carried in 1940 as compared with 21,569 in 1939, an increase of 150 per cent. The average passenger journey was 551 miles.

It was not possible fully to meet the demand on the transcontinental route during the Summer and early Autumn months, although the second daily service between Montreal and Vancouver was in operation from April 14th. The services between Montreal and Moncton and between Montreal, Toronto and Windsor were also insufficient to take care of all those desiring to use them.

Air Express Service

Air express service was extended during the year to all the routes operated in Canada. The number of shipments was 18,476; weight, 105,788 pounds. In 1939 the number of shipments was 10,897; weight, 45,819 pounds. Seventy-five per cent of the revenue from air express accrues to the air line and twenty-five per cent to the express company performing the pick-up and delivery service.

PROPERTY AND EQUIPMENT

Flight Equipment

In 1940 the flight equipment of the company consisted of 15 Lockheed 14-H aircraft, equipment with two Pratt and Whitney Hornet engines each of 850 horsepower, hydromatic full-feathering propellers, and Bendix radio.

Required for existing and new services, six Lockheed Lodestar aircraft were purchased late in 1940 and have since been delivered. These aircraft have accommodation for fourteen passengers, compared with ten in the 14-H aircraft. The new aircraft are equipped with two Pratt and Whitney Twin-Row Wasp engines each of 1200 horsepower.

The company's technical staff continues to follow the latest developments in the field of aeronautical science.

Ground Facilities

The hangar at Moncton, construction of which was commenced in the Autumn of 1939, was completed in March 1940. The instrument shop at Winnipeg was enlarged during the summer to provide the additional accommodation necessary to take care of instrument repairs for the Royal Canadian Air Force. A second storey to the hangar annex at Winnipeg was completed during the Autumn to permit of expansion of shop facilities.

Under agreement with the Canadian National Telegraphs, teletype service linking the airports and traffic offices was installed during the year between Montreal and Winnipeg and between Toronto and Windsor. This service has been of assistance in the handling of reservations.

AIRWAYS FACILITIES

For the use of aviation in general—military, commercial and private—landing fields and other facilities at the airports owned by municipalities or by the Department of Transport were further improved during the year. Improvements were also effected at a number of the intermediate and emergency fields, certain of which are used in connection with the British Commonwealth Air Training Plan.

Airport and radio range facilities were completed by the Department of Transport at London and Windsor and administration buildings erected.

In the mountain section lighted landing fields with runways were established at Penticton and Kimberley and radio ranges installed. These new facilities provided practically a straight range course over the mountains and two additional fields.

Decision was reached by the authorities concerned, during the year, to transfer the St. Hubert Airport, Montreal, to the military, and to develop a new commercial airport for Montreal at Dorval. Work on the new site was commenced in the Autumn and it is anticipated that the field will be available for service during the late Summer of this year. The company, under arrangement with the Department of Transport, is constructing a 200-foot hangar at the new airport, work on which is well advanced.

The weather reporting service operated by the Meteorological Branch, Department of Transport, for military and civil aviation, was extended and its staff augmented.

OPERATING AGREEMENTS WITH OTHER AIR LINES

An agreement was entered into with Northeast Airlines, Inc., to provide radio coverage and the servicing of equipment at Montreal and Moncton, in connection with the operations of that company between Montreal and Boston and Moncton and Boston. A similar arrangement with the Western Air Express Corporation at Lethbridge, covering that company's operation between Lethbridge and Great Falls, Montana, will become effective with the inauguration of the service about April 1st.

TRAFFIC OFFICES

To meet the needs of the expanding passenger business, city traffic offices were opened during the year at Halifax, London, Windsor and Victoria.

PERSONNEL

Personnel as at December 31st, 1940, totalled 789, the comparative figures being as follows:—

	December 31st,	
	1939	1940
Administrative	12	13
Captains and first officers.....	54	89
Stewardesses	28	40
Maintenance and Overhaul.....	233	399
Communications and Dispatch.....	81	101
Station Staffs, Traffic and Clerical.....	89	147
	<hr/> 497	<hr/> 789

During the year the operation and traffic headquarters were transferred from Montreal to Winnipeg.

FINANCIAL

The balance sheet of the company at December 31st, 1940, and income statement, are appended hereto.

Balance Sheet

The paid in capital of the company, \$3,750,000, which has all been raised by the issue of capital stock, was not increased during the year. The reserve for depreciation increased by \$697,912, and now stands at \$1,332,154. Self-insurance reserve was increased by \$89,488, to \$206,827.

Property and Equipment

Expenditures on property and equipment totalled \$1,158,659, as follows:—

Purchase of six Lockheed Lodestar aircraft—complete.....	\$ 925,317
Purchase of two spare Pratt & Whitney Twin-row Wasp Engines.....	36,742
Remainder of cost of Moncton hangar.....	38,156
Addition of second storey to hangar annex, Winnipeg.....	27,478
Shop and servicing equipment.....	48,882
Radio equipment.....	25,370
Betterments to aircraft and aircraft equipment.....	15,507
Betterments to hangar and other buildings.....	17,243
Furniture and fixtures for offices and stations, and miscellaneous.....	23,964
	<hr/>
	\$ 1,158,659

Income Account

The income account for the year, after providing for all operating costs including depreciation and interest on invested capital, shows a surplus of \$539,263. Notwithstanding rising prices, operating costs were reduced from 88.4 cents per mile to 76.9 cents per mile or 13%. The additional services operated during the year contributed to this reduction.

GENERAL

War Conditions

Every phase of civil aviation has been affected by war conditions. Trans-Canada Air Lines is no exception. Many employees have been granted leave of absence to join the fighting forces, principally the Royal Canadian Air Force. The loss of one of the original Trans-Canada pilot group, Captain W. G. A. Coulson, killed on active service overseas, is recorded with regret.

The company's instrument shop at Winnipeg was doubled in capacity and is working full time in the overhaul and repair of aircraft instruments for the Royal Canadian Air Force. Under contract with the Department of Munitions and Supply a shop was established at Malton Airport (Toronto) for the overhaul and repair of military aircraft, and is now in operation.

The facilities of the company at the various airports across Canada are extensively used for the servicing of military aircraft, and radio coverage is furnished as required. Flight personnel of the company have assisted in the delivery of training aircraft purchased in the United States; in the ferrying of military and training aircraft between the different training depots in Canada; and in training civilian pilots proceeding overseas. A considerable amount of this work was done by employees in their own time as a contribution to the war effort.

Trans-Atlantic Flights

During the Summer and early Autumn, five round trips were operated over the North Atlantic route between Southampton, Foynes, Botwood, Montreal and New York by British Overseas Airways Corporation. Trans-Canada Air Lines, as agent of that corporation, handled the Canadian arrangements.

Service Extensions

It is proposed, about April 15th, to increase the present schedule between Montreal and Moncton from one to two round trips daily, and concurrently it is planned to extend the service to Halifax.

The rapid growth of mail and passenger business during the year indicated the desirability of a third transcontinental trip between Montreal, Toronto and Vancouver. The date for the inauguration of this schedule has not yet been decided upon as developments in the Spring will govern the decision.

Trans-Canada Air Lines' application for license to operate a direct service between Toronto and New York has been favourably reported upon by the Examiner of the Civil Aeronautics Board of the United States. As a Canadian license has already been granted it is planned to commence the service between the two cities as soon as possible after the United States' license is received—probably about April 15th—with an initial schedule of two round trips a day.

Under the terms of a recent understanding between the Governments of Canada and the United States regarding international air services, Trans-Canada is relinquishing its Vancouver-Seattle service. This service, owing to its competitive nature (a United States operator is also giving service) has not been profitable, and its abandonment releases equipment and personnel for other routes.

It is with deep regret that your Board record the loss of the passengers and crew in an accident to one of the Company's aircraft near Armstrong, Ontario, on February 6th, 1941. They desire to place on record their sympathy with the families of those who lost their lives. From the inception of passenger service to that date 8,165,000 miles had been flown by Trans-Canada aircraft without a fatality.

Acknowledgment is made of the loyal service of the Company's personnel during a year of increasingly exacting demands as a result of war conditions.

For the Directors,

S. J. HUNGERFORD,
President.

Montreal, 19th March, 1941.

The CHAIRMAN: Is there any discussion?

Mr. JACKMAN: In the second paragraph of the report it says that the expansion is due chiefly to the nation's war time activity. I have always had a feeling that the expansion of this service to a great extent has taken place during 1940 and has, perhaps, two aspects to it: one is that it required more planes which might be extremely useful elsewhere and yet we have taken them for the expansion of the service in Canada. I feel that there are a great many people who travel on the Trans-Canada Air Lines who could just as easily travel on the trains except, perhaps, that there is a bit more comfort and expedition, but it really does not contribute to the war effort substantially. The same is true with mail. For instance, on some of the Royal Mail buses that collect the mails you see signs "Speed the War Effort, Use Air Mail." I think it is hardly necessary to tell business men who have mail concerning war contracts, etc., that there is a mail service. In other words, it is catering to an increase in the use of air mail by the Canadian public, and while I think that is entirely worthy during peace time, I feel that the aggressiveness in getting business both on passenger account and on mail account and perhaps on express account, about which I have no information, has been more strenuous than is warranted by the need for aeroplanes elsewhere. I should like to hear from the

proper officer some description of the class of passenger traffic and of air traffic that is carried if it is possible to get it. Undoubtedly, there are many cases of people using this service because of its relatively low competitive rates with train services and with ordinary mail services which induces them to use the plane whereas they might just as well, as far as the war effort is concerned, use the ordinary facilities.

Mr. COLYER: We have made a rather careful survey of our passengers and it indicates that between 60 and 70 per cent of the persons who travel on the T.C.A. are connected with the military effort or connected with supplies and so on—the war effort. We do not have information with regard to the air mail as to what proportion of the mail has to do with the war effort.

Mr. DONNELLY: The rate is 60 cents per mile, train mile, or it was on March 31st; what is it now?

Mr. COLYER: Forty-five cents.

Mr. POULIOT: Mr. Colyer, according to the map I have here the red line is the Trans-Canada Airways?

Mr. COLYER: Yes.

Mr. POULIOT: And these others are feeders?

Mr. COLYER: They are operated by—

Mr. POULIOT: —independent companies.

Mr. COLYER: Yes.

Mr. POULIOT: Is it your knowledge that the C.P.R. controls the stock of most of those feeders?

Mr. COLYER: I have read it in the papers.

Mr. POULIOT: You do not know anything officially about it?

Mr. COLYER: No, sir.

Mr. POULIOT: And those feeding lines are mostly north of the Trans-Canada Air Lines?

Mr. COLYER: To a large extent, yes.

Mr. POULIOT: They extend on the west to Vancouver island?

Mr. COLYER: Yes, sir.

Mr. POULIOT: And on the east and northeast they go from Montreal to Harrington harbour, Labrador?

Mr. COLYER: Yes, sir.

Mr. POULIOT: You have nothing to do with them?

Mr. COLYER: No, sir.

Mr. POULIOT: But what concerns us now is only the broader lines of the Trans-Canada Air Lines going from Vancouver to Halifax and from North Bay to Ottawa and from North Bay to New York through Toronto and from Toronto to Windsor?

Mr. COLYER: And from Lethbridge up to Edmonton.

Mr. POULIOT: Yes, I should have said from Lethbridge up to Edmonton. And besides that all the other services are independent from yours?

Mr. COLYER: We operate a service from Moncton to Prince Edward Island.

Mr. POULIOT: Oh, yes. That is all?

Mr. COLYER: Yes, that is all.

Mr. DONNELLY: How does 45 cents per train mile compare with the American rates?

Mr. COLYER: It is higher than the average rate down in the United States.

Mr. DONNELLY: What is the American rate?

Mr. COLYER: The rates vary for different companies, for different operations. I think the average rate down in the United States now is somewhere a little over 30 cents per plane mile.

Mr. BERCOVITCH: Is that per pound?

Mr. COLYER: No, per plane mile, for a certain unit of mail. I think their rates are based on a unit of 300 pounds. We carry all the mail. For example, on the transcontinental trips we have loads up over 1,000 pounds on the main transcontinental and our rate applies. In the United States they would have a sliding rate; they would get paid, say, 30 cents for the first 300 pounds and additional cents for the next increment.

Mr. BERCOVITCH: You do not work it out by the ounce—the price the citizen would have to pay when mailing a letter?

Mr. COLYER: The citizen, when he mails his letter, pays 6 cents for the first ounce and 5 cents for each additional ounce in Canada; in the United States they pay 6 cents straight throughout.

Mr. Ross: How is the Toronto-New York trip working out?

Mr. COLYER: It has been in operation for passengers only since the 10th of May and the average passenger load has been about 60 per cent, so far, which is a very good load factor, but we are all carrying considerably in excess of 100 pounds of mail per trip. It looks as though as soon as business is developed and we get it publicized and advertised that it will be good business.

Mr. Ross: Where are your landing facilities in New York?

Mr. COLYER: We are using La Guardia airport.

The CHAIRMAN: You now charge 45 cents per mile?

Mr. COLYER: Yes, that is right. The contract with the Post Office Department requires that we carry up to 100 pounds at the contract rate, even though the amount of mail has gone over the 1,000 pounds.

Mr. NICHOLSON: What is the policy in connection with issuing passes? I know that members of parliament are not entitled to passes. What is the policy on the T.C.A. with respect to passes?

Mr. COLYER: We do not issue any passes.

Mr. SHAW: Do you issue any special rates to certain classes?

Mr. COLYER: No, sir.

Mr. Ross: I presume the postmaster-general would be entitled to a pass?

Mr. COLYER: That is provided for in our contract with the Post Office Department. When he is on business for the postal service he can use our service. I think we gave you an outline before the committee here last year in regard to passes. As far as the public are concerned or anyone outside we have no passes.

Mr. HANSON: Does the Post Office Department grant passes to more than the postmaster-general? For example, the inspector of postal service?

Mr. COLYER: If he is travelling on air mail business yes, sir.

Mr. LOCKHART: I should like to inquire into the statement made by Mr. Pouliot. At least, the newspaper statement has indicated that it was known latterly that feeder lines have apparently been passing into the hands of the other trunk railways. That would mean then that we are going to eliminate the difficulty that developed with the two trunk lines when the truck companies and buses moved into the feeder field. In this case with the air lines in the hands of the two railways that situation is to be eliminated in the future so far as air ways are concerned. In other words, the two trunk railway systems will be in control—the Trans-Canada Air Lines will control the trunk lines across Canada and the feeder lines will be under the control of the other trunk lines or railway lines. That is, apparently, what has developed.

Mr. COLYER: One would get that impression.

Mr. LOCKHART: That appears to be the true situation.

Mr. COLYER: So far as I know.

Mr. POULIOT: Last year in the estimates the item for air service was increased from \$2,250,000 to \$4,500,000; do you remember that?

Mr. COLYER: For air services?

Mr. POULIOT: For air mail.

Mr. COLYER: No, it was increased to about \$3,600,000.

Mr. POULIOT: Yes, but the amount mentioned in the estimate—I have not got the book here—

Mr. COLYER: You are correct, sir.

Mr. POULIOT: The amount mentioned in the estimates was twice as much as the previous year.

Mr. COLYER: Yes.

Mr. POULIOT: And was that on account of the fact that the amount of mail was twice as large or because some help was needed by the company for the purchase of new planes or other equipment?

Mr. COLYER: No, we do not buy our aircraft or any of these other items out of our earnings; they come from the capital account which is voted by parliament.

Mr. JACKMAN: Where is that item?

The CHAIRMAN: We have not come to it yet. We are out of order.

Mr. JACKMAN: May I ask this question: is it not so that the use made of the air lines for expediting the war effort could stand a much higher charge than is made both in connection with passenger rates and air mail rates?

Mr. COLYER: I would not know the answer to that; but the law under which the T.C.A. was created said that the rates would be competitive with those in the United States, so we are merely carrying out a law of parliament.

Mr. JACKMAN: A law that the Dominion of Canada has made.

Mr. DONNELLY: I move that we meet this afternoon at 4 o'clock.

The CHAIRMAN: In the course of our proceedings we will have some discussion on the postal service and I think we ought to have some representatives from the Post Office Department here, so we will get them here.

The committee adjourned to meet at 4 o'clock.

AFTERNOON SESSION

The committee resumed at 4 o'clock.

The CHAIRMAN: Order. When the committee rose for lunch we had just finished the first part of the Trans-Canada report, and we had hoped to have the Post Office officials with us for the afternoon session. We expect they will be here in a few moments. If any matters come up for which their presence is necessary we can hold them over for a few minutes. Have you any further discussion on these first two pages?

Mr. JACKMAN: When the committee rose we were discussing whether or not war traffic on the T.C.A. would stand a substantially higher rate than is presently charged, both in regard to passengers and mail. In other words, what I should like to see done in connection with T.C.A. is some reasonable limitation to the expansion of the service in war time. One way of doing that, of course, would be to charge a higher rate so that only those who really require the

service would make use of it. I understand that in the United States, for instance, the expansion of the air lines has not gone on in an unbounded fashion; but on the other hand it has been more or less subjected to a pro rating because of the fact that the planes, particularly the larger ones, are so badly needed for overseas.

Did not the manager say that the so-called war traffic would not stand a very substantially higher rate? Why is it not done in order to help eliminate some of the traffic which is merely cluttering up the lines in a time of war.

Mr. COLYER: Well, as I said this morning the Act which set up Trans-Canada Air Lines specifies the rate charged for passenger traffic will be competitive with that of the United States air lines. So it will be necessary to amend the Trans-Canada Act to put in passenger fares in excess of those now being charged.

Mr. JACKMAN: An amendment to the Act would not be insuperable.

Mr. COLYER: That is government policy.

Mr. JACKMAN: It would not be insuperable if the committee were agreeable to the contention which I have advanced.

Hon. Mr. HOWE: As I understand it, you think we should reduce the number of planes?

Mr. JACKMAN: You were not here this morning, Mr. Howe.

Hon. Mr. HOWE: No, I am sorry, I just came in.

Mr. JACKMAN: My contention is we should not encourage these services in war time except for war business. About one-third of the business, according to the best estimates the department can make, is not what you would call war business, either passengers or mail. One way of cutting down that traffic, so that you will not have to order new planes and thus detract from the war effort would be to raise the rates both on passengers and mail. I can hardly conceive of anyone who has any important business on war contracts and who want to get a letter down here in a hurry not being willing to pay a fairly large increase in the present rates, which are really very cheap competitively with the ordinary mail and ordinary transport on the railways.

Hon. Mr. HOWE: My suggestion would be that we are able to offer a low rate through having the volume of traffic. Raising the rates would probably decrease the traffic and so that the government would not be any further ahead.

Mr. JACKMAN: That is exactly what I want. I want the traffic decreased.

Hon. Mr. HOWE: All right, decrease the traffic, if you can get them all in one plane and get them to go at one time. We are using in the service about twenty planes that we own. Twenty airplanes at the present time are less than one per cent of the planes we own in Canada.

Mr. JACKMAN: That is counting planes that we have for protection, if you like. These are very valuable planes. What I do not agree with is the attitude of the government in encouraging this service and in requiring these very large planes which could be made into bombers or when the order was placed the same amount of many hours in American factories could have produced bombers. I feel we should not create a demand for or encourage this kind of thing at the present time. Naturally the Post Office wants to make a profit out of its air mail, and the line itself wants to make a profit from the passenger service. But we are not interested in passengers just now; we are interested in getting as many planes across the Atlantic as possible.

Mr. COLYER: I might say this, Mr. Jackman, when these planes were ordered and when they were built the factories were able to manufacture these in addition to those they were manufacturing for the United States and Great Britain. They definitely assured us of that. At the time these big aircraft that you are talking about were built—and it was a year ago—it did not interfere

with any orders that they had from Great Britain or the United States. It so happens that the situation in that respect has materially changed since. They do have orders now for much larger quantities of military aircraft, but not during the summer of 1940 when these planes were ordered.

Mr. JACKMAN: In that case the fault would probably lie with the allied purchasing commission or whatever they call it in New York which had not placed orders to use all the available manufacturing capacity of these American plants. However, if it were not detracting from the number of planes which go across the ocean I would not object so much.

Mr. COLYER: I am certain that is the case. It did not affect the number of bombing planes delivered to Great Britain or the United States at that time.

Mr. JACKMAN: I shall have to accept the statement and I am very glad to have it.

Hon. Mr. HOWE: We are in exactly the same position as the United States in ordering new equipment. The orders of the United States air lines were reduced to one-half; ours were reduced the same way. As a matter of fact, we have no orders in. We have equipment enough on hand now to do us for a while. Expansion is still going on in the United States, of course.

Mr. JACKMAN: It has been restricted.

Hon. Mr. HOWE: Expansion is not as rapid as it would be if there was no war; but expansion is still going on.

Mr. JACKMAN: We have been doing a wonderful job on this T.C.A. as a peacetime job. The expansion has been simply amazing and the profit is very good looking; but I should hate to think it was at the expense of our contribution to the war effort.

Hon. Mr. HOWE: We have very few people travelling in Canada for pleasure. I doubt if anyone travels to-day that is not directly or indirectly on war business.

Mr. HAZEN: We were told the percentage was between 60 and 75.

Mr. ROSS: Direct. How about indirect business?

Mr. JACKMAN: There is a lot of trotting about in these planes by people not on war business.

Mr. COLYER: I think it is quite evident to most anyone who travels that you find the number of lady passengers on the aircraft in the United States runs to probably 30 per cent or 40 per cent of the total passenger load. It is seldom that you have women passengers in Canada of more than one in ten, probably not more than one in 25, which is an indication that the people who are travelling are definitely on business or pretty much so.

Mr. JACKMAN: I wonder if we can have some information of what the expected policy of the T.C.A. will be for 1941. You have just got six new planes. The Minister of Munitions and Supply just stated that they should do for a while. What is the policy, let us say, for 1942 and 1943 if we are still in the war? Are you going to try to push this service on and expand it as you would in peace time or have you reached the place now where most of the travel on war contracts—that is, most of the increase in travel on war contracts—has ceased? Will you go on and expand it next year or will you only purchase the planes you require for replacement purposes?

Hon. Mr. HOWE: I think we will have to say government policy will be made known in due course. I do not think anyone can plan a year ahead on anything.

Mr. JACKMAN: I am not necessarily asking about government policy. We have been told about the increase in traffic. If there should not be a much greater increase in traffic in 1941 in connection with the war than there is

to-day—you will expect to reach your peak in the labour situation some time this fall—

Hon. Mr. HOWE: We will naturally keep our airplanes in proportion to the traffic that warrants. In fact there is no indication that the traffic is not on the increase at the moment.

Mr. JACKMAN: Is not on the increase?

Hon. Mr. HOWE: Yes.

Mr. JACKMAN: You are encouraging it all the time. As I mentioned here this morning, on the royal mail buses in Toronto you see little placards saying "feed the war effort; use air mail." People who see that are just ordinary people. Business men are acquainted with the service as given; they do not need any encouragement. But the ordinary person is led to believe that he will be helping the war effort by purchasing air mail stamps. You are encouraging the bulk of your air mail from substantially those people, and there is no connection whatsoever with the war there.

Hon. Mr. HOWE: We have ample capacity to carry mail and to carry passengers and we will be glad to have the business. The Toronto citizen would be glad to have the service if he knew how good it was.

Mr. JACKMAN: When your capacity gets up so high you may want a new plane or two. I do not think we should get any more planes now.

Mr. COLYER: Is it not proper to try to increase government income at the present time? That is what we are doing by promoting this air mail service.

Mr. JACKMAN: Not at the expense of buying planes which are needed overseas.

Mr. COLYER: We are encouraging people to buy stamps.

Mr. HAZEN: Are you not cutting into the Post Office service by these placards?

Mr. COLYER: I am sorry if I said something out of turn. As we see it an increase in traffic on the air lines helps both us and the Post Office Department.

Mr. HAZEN: If this mail was being carried by the railways they would be getting a certain amount of money they are not getting now.

Mr. COLYER: Just half as much as if it goes by air. The Post Office income from air mail letters is twice as much as if it goes by ordinary mail.

Mr. HAZEN: But it does not cost as much to carry it. Does it cost them half as much or less by mail than by air?

Mr. COLYER: I could not answer that.

Mr. HAZEN: You used the words "60 cents a mile." Is that 60 cents a hundred or what is it?

Mr. COLYER: Sixty cents for all mail.

Mr. HAZEN: A hundred pounds?

Mr. COLYER: No, for any quantity. We carry over a thousand pounds similarly. The 60 cents covers that.

Mr. HAZEN: All the mail that can be put into the plane you will carry at 60 cents a mile irrespective of weight?

Mr. COLYER: Yes, sir.

The CHAIRMAN: I might suggest to the members of the committee we would be in a much better position to deal with this question of air mail if we heard Mr. Coolican and Mr. Herring who are here.

Mr. NICHOLSON: On page 6 we have the number of pounds carried per month; I wonder if the members of the department could tell us what the picture is since the beginning of the present year? Are we having a similar

increase? Is there to be an increase in the amount of mail carried in 1941 as compared with 1940?

Mr. COOLICAN: I can give you figures for the calendar year 1940. I was rather quickly notified to come up here and I have not got the figures I intended to have.

In January, 1940, as compared with January, 1941, the gross weight of mail carried in January, 1940, was 64,880 pounds. In January, 1941, the gross weight carried was 82,920 pounds.

For the total year, 1940, the gross weight carried was 927,037 pounds. For 1941 we can only give you three months.

Mr. NICHOLSON: Have you February and March there?

Mr. COOLICAN: February and March?

Mr. NICHOLSON: Of 1941.

Mr. COOLICAN: Yes. 77,952 pounds for February and 89,745 for March. Now, in February, 1941, as compared with 1940, we went up to 82,487 pounds. In March it went up to 91,453 pounds. I have also the figures for April. In April it went up from 57,295 pounds in 1940, April, to 99,071 in April, 1941.

Mr. HANSON: What was the total subsidy for 1941 paid by the Post Office Department to the Trans-Canada Air Lines?

Mr. COOLICAN: The total amount paid in 1940, the calendar year, was \$1,854,074.

Mr. NICHOLSON: Have you any way of estimating the amount of revenue in the department?

Mr. COOLICAN: Yes. I beg your pardon; I want to make a correction. The actual total cost for the calendar year, 1940, to the post office department is \$2,832,363.

Hon. Mr. HOWE: That is for Trans-Canada?

Mr. COOLICAN: That is Trans-Canada only. The revenue from that during the same period was \$1,854,074.

Mr. HAZEN: Is that the total amount you received for mail—\$2,832,000?

Mr. COOLICAN: That is the cost?

Mr. HAZEN: The figures you just gave us?

Mr. COOLICAN: Yes; the cost.

Mr. HAZEN: That is the cost of carrying the mail?

Mr. COOLICAN: That is the cost of carrying the mail, yes. That is the amount of money we pay to the Trans-Canada Air Lines for carrying the amount of mail from which we obtained a revenue of \$1,854,074.

Mr. NICHOLSON: What difference would it make to the revenue if the rate were reduced from 60 cents to 45 cents?

Mr. COOLICAN: I have not got any comparative figures for what I have given you, because the mileage is constantly increased and the amount at 45 cents decreases the amount you pay; not on the same comparative mileage, it is a greater mileage for the coming year.

Mr. HAZEN: You say that is the amount of money we pay?

Mr. COOLICAN: To the post office.

Mr. HAZEN: Could you tell me how much money the post office department collected from the people who sent that mail?

Mr. COOLICAN: \$1,854,074.

Mr. HAZEN: In other words, it cost you more to send it than you received?

Mr. COOLICAN: Certainly. That is understandable because it is well known that we have not yet arrived at a volume of mail which will equal the cost of operation. It is coming up remarkably fast.

Mr. HAZEN: What was the amount you mentioned?

Mr. COOLICAN: \$1,854,074 in the calendar year 1940.

Mr. JACKMAN: Is that amount all reckoned from the sale of air mail stamps?

Mr. COOLICAN: From the weights of the mail.

Mr. JACKMAN: How do you get the revenue received from the air mail stamps?

Mr. COOLICAN: The only mail carried on the Trans-Canada is first-class mail, and the number of letters to the pound runs about 45 or 50. The rate is 6 cents for the first ounce, but out of that 6 cents there is the cost of the ordinary handling of the mail, and out of that 6 cents we allow 4 cents for the air mail, leaving the other 2 cents for the cost of carrying in other parts of the service.

Mr. JACKMAN: In other words, this amount of \$1,854,074 multiplied by 3 over 2 would be the total sale of air mail stamps.

Mr. COOLICAN: Put it this way: We estimate \$2 a pound.

Mr. JACKMAN: You estimate your revenue on the poundage of mail?

Mr. COOLICAN: On the poundage of mail.

Mr. JACKMAN: And not on the sale of stamps?

Mr. COOLICAN: Well, the cost of computation would be a little bother.

Mr. NICHOLSON: Assuming you have an increase of 65 per cent in 1941 as compared with 1940, with the reduced rate what are the possibilities of breaking even for the present year?

Mr. COOLICAN: Well, Mr. Herring will probably explain that.

Mr. GEO. HERRING: The best way to determine how soon we will arrive at that is to complete the amount of mail we still require to make ourselves self-supporting. When this statement was prepared it was down to the middle of last year, and we were optimistic when we said there was a 4 per cent increase in the volume of mail. We kept a close watch on that expecting at any minute to find that we were much too optimistic. We kept that right up to date. We got the whole of 1940 and we got it for the first four months of 1941. Basing it on the original estimate that we would obtain the same rate of increase this statement shows that in the month of April had we maintained the 4 per cent increase we would have required 529 pounds per day to make us self-supporting. The actual figures, based on the known results for April, show that we still required 308 pounds instead of 529. There has been a most phenomenal increase in the support of air mail. We have a gross which shows that with the 4 per cent increase per month between October and November of this year we would have been over the top. With the reduction in the rate from 60 to 45 cents and the increase in the expected rate of growth it looks to me as if we are going to hit the even somewhere round about July or August.

Mr. NICHOLSON: That is the information I wanted to get.

Mr. DONNELLY: Did I understand you to say that though you took the 6 cents for each letter you applied 4 cents of it to the plane carrying the mail and 2 cents of it for the handling of the mail otherwise?

Mr. HERRING: That is correct.

Mr. DONNELLY: If you took the full 6 cents for carrying the mail you would practically break even during the past year?

Mr. HERRING: We would have been over the top long since, but you cannot do that because there is always a certain amount of expenditure in connection with the handling of mail at the post office.

Mr. NICHOLSON: Some of the letters go part way by train?

Mr. HERRING: Yes.

Mr. HAZEN: Have you the figures for the cost of carrying mail by rail?

Mr. COOLICAN: Yes, but the rates on railways are space-mile rates. There is a 4 cent a mile rate for 3 feet in a baggage car, and we put into that 3 feet as much as we can. It is 35 cents per mile for a full railway mail car.

Mr. HAZEN: That would hold considerably more.

Mr. COOLICAN: Oh, yes; there is really no means of comparing that with the amount carried by air, because it contains all kinds of mail, like newspapers, parcels, third-class matter, and so on. On Trans-Canada we carry only first-class mail.

Mr. HAZEN: Have you noticed any reduction in the amount of mail carried by rail?

Mr. COOLICAN: No.

Mr. HAZEN: Since Trans-Canada came in.

Mr. COOLICAN: No. Say we carry half a ton a day by air, or approximately that, each way; distribute that over miles of railway mail cars with different kinds of numbers and you have nothing upon which to base an estimate.

Mr. HAZEN: I suppose Trans-Canada has affected to some extent the revenue derived through the carriage of mail by rail?

Mr. COOLICAN: I would not say so because most of this air mail business is really new business because of the speed involved.

Mr. HAZEN: Would not such people be inclined to send it anyway?

Mr. COOLICAN: Certainly.

Mr. HAZEN: Well, then, would not that revenue derived from the mail enure to the railways?

Mr. COOLICAN: Yes, if you can distribute that half a ton per day each way over the 18,000 miles of railway. I do not think it would be worth while getting these figures out. I suppose we could.

Mr. HANSON: The figure you gave us was based on the 60 cents per mile rate? That is what we were paying last year.

Mr. COOLICAN: It costs 60 cents per mile by air.

Mr. HANSON: It is now reduced to 45 cents?

Mr. COOLICAN: It is now reduced to 45 cents, yes.

Mr. HANSON: And the figure you gave us is based on the 60 cents per mile rate?

Mr. COOLICAN: For the year 1940, yes.

Mr. HANSON: If that were 45 cents per mile there would be a different picture?

Mr. COOLICAN: Oh, yes.

Mr. HANSON: You would just about break even then?

Hon. Mr. HOWE: What is the average cost of a letter first-class moving by rail?

Mr. COOLICAN: Out of 3 cents charged we figure that we make a clear 1 cent.

Hon. Mr. HOWE: So that when you only give the air lines credit for 4 cents you are sort of doing the post office a little bit?

Mr. COOLICAN: A little reserve.

Mr. NICHOLSON: In connection with the figure of \$2,832,000 does that include payments made to the United States for air mail carried to the United States?

Mr. COOLICAN: No; the figures I have given you apply only to the Trans-Canada Air Lines.

Mr. NICHOLSON: For letters carried within Canada?

Mr. COOLICAN: For letters carried within Canada by the Trans-Canada.

Mr. DONNELLY: Mr. Chairman, is anyone in the railway company able to give us an estimate of the effect that Trans-Canada carrying this mail has had upon the revenues from telegraphs?

Mr. HUNGERFORD: It is very difficult to say, sir. There has been a certain falling off in the night-letter business, but the other business has increased. It is practically impossible to say what the effect is. It probably had some effect, more particularly on night letters.

Mr. DONNELLY: It likely affected telephones too.

The CHAIRMAN: Is there any further discussion on this report?

Mr. MAYBANK: Did I get clear from Mr. Howe's question to you, Mr. Coolican, that you have six cent postage in the case of air mail and three cent postage in the case of mail that goes over the railroad; and in the one case you figure on a cent going to the post office, but in the air mail case you figure on two cents going to the post office. Of course, that is just a matter of accounting, but is that right?

Mr. COOLICAN: Yes; we attribute four cents to the air mail out of the six.

Mr. MAYBANK: Just keeping two cents for the other post office work?

Mr. COOLICAN: Yes.

The CHAIRMAN: Are you all through with the first part of this report? If so, we will move further on.

Mr. JACKMAN: No.

Mr. NICHOLSON: Mr. Chairman, I asked a question this morning with regard to passes. There was some conversation up in front there that I did not follow very well. Did I understand that passes were given to certain postal authorities in connection with the T.C.A.?

The CHAIRMAN: The postmaster general.

Mr. COLYER: We require under our contract with the Post Office Department to furnish transportation to postal officials travelling on air mail business.

Mr. NICHOLSON: I thought your first answer was that you said there were not any passes.

Mr. COLYER: I said there were not any passes as we ordinarily think of them to the general public; that is, to those not connected with the operation of the Trans-Canada Air Lines. We have a statement here that I think might probably answer all your questions. We prepared a similar statement at the committee hearing last year. The situation today is identical with what it was a year ago.

Mr. NICHOLSON: This is my first year on the committee.

Mr. JACKMAN: I suppose the operating capacity of the planes has been at an exceptionally high rate. Last year I think it was given in the report, or we had it in evidence anyway. How do you compare now with the American lines? I suppose you are very much higher.

Mr. COLYER: That is, our load factor?

Mr. JACKMAN: Yes, the load factor.

Mr. COLYER: We have the figures for April, last month. The load factor on the transcontinental was 74 per cent, which I think is considerably above the average in the United States.

Mr. JACKMAN: That is not much better than last year, is it?

Mr. COLYER: No. But when you are up around 70 to 75 per cent on a transcontinental line nearly 4,000 miles long, that is about as many passengers

as you can carry, because they are not all going from one end of the line to the other.

Mr. JACKMAN: Does that represent passengers only or the total available space on the plane for air mail and express? Is 74 per cent merely passengers or is it mail space?

Mr. COLYER: That is what we are speaking of entirely, passengers.

Mr. JACKMAN: Passengers only?

Mr. COLYER: Passenger space is what we are referring to.

Mr. JACKMAN: How are you on the air mail end of it?

Mr. COLYER: On some trips we are loaded right up to capacity with mail and express.

Mr. JACKMAN: You do not keep statistical figures on that. I suppose it is not quite so easy. It is easy to find out how many vacant seats there are, but it is not so easy to see how much cubic capacity there is.

Mr. COLYER: You could get yourself into a lot of statistics to try to do that, but it would not mean anything. We have got definitely a certain number of seats available there, and the amount of space that is available for mail and express varies from trip to trip and is tied in with weather conditions or airport conditions and various other factors such as the amount of gasoline that you have to carry on the plane to go between certain points, which will vary from day to day, so that it will be impossible to keep accurate figures as to the percentage of capacity for mail and express load.

Mr. HAZEN: Who holds the shares of the stock in this company?

Mr. COOPER: The Canadian National Railways company.

Mr. SHAW: I note that certain municipal airport facilities are used by the T.C.A. What type of contract is entered into in this regard where they are using municipal airports?

Mr. COLYER: Prior to the outbreak of the war, T.C.A. had contracts with different municipalities for the use of their airports. At the present time the government has taken over all the airports, so that our contracts now are with the Department of Transport, who control all of the airports that we use.

Mr. SHAW: This report, therefore, would not be entirely correct in stating that they are using municipally owned airports?

Mr. COLYER: Well, some of them are still municipally owned but controlled by the dominion government. I think that is correct.

Mr. MAYBANK: They have turned them over generally at a dollar a year to the dominion government?

Hon. Mr. HOWE: Yes.

Mr. SHAW: What I was getting at was what consideration is given to the owner for the fact that we have expropriated them for the duration of the war?

Mr. COLYER: We pay the Department of Transport and they in turn—I do not know just what they do.

Hon. Mr. HOWE: The Department of Transport pays all the operating expenses of airports and usually extends the facilities of the airport at the expense of the federal government. I do not think any municipalities will be any the worse for our having taken the airports over for the duration of the war.

Mr. MAYBANK: You add to the value of them all?

Hon. Mr. HOWE: We add to the value of the airports very greatly.

Mr. MAYBANK: And they will get a dollar a year and get them all back?

Hon. Mr. HOWE: After the war.

Mr. MAYBANK: With whatever you have put into them?

Hon. Mr. HOWE: Yes.

Mr. MAYBANK: Is that not the idea?

Hon. Mr. HOWE: Yes, that is the idea.

Mr. SHAW: And again where they are using certain intermediate emergency fields in connection with T.C.A. operations as well as the British Commonwealth Air Training Scheme, how do they determine the costs that are to be charged against the Department of Defence or the Department of National Defence for Air and the T.C.A.?

Hon. Mr. HOWE: The T.C.A. pays nothing for emergency fields. They do not use them except in grave emergency. They were all installed by others, either municipalities or the federal government. But T.C.A. never has paid for the use of these fields.

Mr. POULIOT: Mr. Coolican, do you know anything about the ownership of the feeder lines? Do you know if the stock is controlled by the C.P.R.?

Mr. COOLICAN: No, I do not know that.

Mr. POULIOT: You do not know that?

Mr. COOLICAN: No.

Mr. POULIOT: Could Mr. Howe tell us something about that.

Hon. Mr. HOWE: I only know what I have read in the press. I understand that the C.P.R. have—in fact, Mr. Beatty published in his annual report that he had bought control of several lines. One I think is the Mackenzie Airways and another is Starratt Airways; and I think there is a third that he has bought—the Yukon Southern.

Mr. MAYBANK: Would not the organization of the T.C.A. have knowledge of all the other flying companies, or at least some knowledge of all the other flying companies in Canada, Mr. Chairman? Would you have knowledge of organizations that might become competitors?

Mr. COLYER: I would expect that we would. Of course, at the moment—

Mr. MAYBANK: Can you not describe what has been going on recently with reference to the purchase of a number of these companies such as Mr. Howe has mentioned, leading, it would seem, to a straight across-Canada competitive route being established by the C.P.R.? Surely you are alive to that, I fancy, Mr. Colyer.

Mr. COLYER: I had not heard anything to the effect that the C.P.R. was starting to operate an east to west route across Canada.

Hon. Mr. HOWE: We are protected against that by legislation. The Trans-Canada Act provides there can be no competitive route against Trans-Canada.

Mr. MAYBANK: While the Act may provide that, is there not, as a matter of fact, going on at the present time a movement directed by the C.P.R. which would seem to indicate that some form of competition along that line is under way?

Hon. Mr. HOWE: I would not think so, no. I see no evidence of it. These routes are really north and south routes; and while they are competitive one with the other, I do not think any of them are competitive with the Trans-Canada.

Mr. COLYER: They are feeders of our line.

Mr. MAYBANK: At the moment they are feeders.

Mr. COLYER: They are bringing in traffic to the Trans-Canada.

Mr. MAYBANK: What would it take to connect them up?

Mr. COLYER: It would take another transcontinental route.

Mr. MAYBANK: Would it really take a transcontinental route? Would it not be really filling in a few gaps?

Mr. COLYER: No.

Mr. MAYBANK: That is not so?

Mr. COLYER: I do not see where it would.

Mr. MAYBANK: I am just asking for information. I do not know. Certainly there is a great deal of current talk to the effect that the C.P.R. has some such plan. Had you not heard it?

Mr. COLYER: Yes. I have heard rumours to that effect, but I do not see any evidence of it.

Mr. MAYBANK: You just do not see any evidence of that?

Mr. COLYER: No.

Mr. MAYBANK: That there is any such build-up?

Mr. COLYER: I just cannot see it unless government policy would be to set up two continental routes.

Mr. HANSON (*Skeena*): They would have to obtain a charter from the federal government.

Mr. COLYER: Under the law they would have to obtain a charter from the government or from the Board of Transport.

Mr. MAYBANK: The C. P. R. has sometimes been called the government on wheels, although I do not think it has been so in the last seven years. I will not go beyond that.

Mr. JACKMAN: I will go beyond that for you.

Mr. MAYBANK: Another gentleman says he will go further.

Mr. SISSONS: Would it not have been felt in the interests of the Canadian National to have acquired those feeder lines, Mr. Chairman? Was there any attempt made by the Canadian National to acquire those lines as feeders?

Mr. COLYER: I think Mr. Howe should answer that.

Hon. Mr. HOWE: I was just reading from a portion of the presidential address of the president of the Canadian Pacific railway. It says:—

“None of these companies,” the president stated, “are engaged in services which are competitive with those of Trans-Canada Air Lines, but they perform valuable functions complementary both to the services of that company and those of your railway.”

Answering your last question, it was never the intention to make Trans-Canada Air Lines anything other than a trunk line service. It was never the intention to close out private enterprise from the functions that it was serving at the time that Trans-Canada was organized. The purpose of the line was to form a connecting service from one coast to the other, into which private services can feed their traffic or take traffic to distribute to more and more areas. It is still the view of the management, I think—and it is my own view—that it is not wise to undertake any service which is not up to the standard, or cannot be brought up to the standard of main line operation and such international connections as Canada is called upon to operate.

Mr. SISSONS: Take the Yukon Southern; they are running to Alaska?

Hon. Mr. HOWE: That is in a little different position. It was always the set intention of the Trans-Canada to operate that when it became an international route. We believe that some day it will become an international route. Up to the present time there are no air fields in that country. It would be impossible to operate that type of equipment that Trans-Canada uses; but

air fields are being built, and it will, in a year or so, become possible to operate with that type of equipment. Then the question will come up as to whether it should be operated by Trans-Canada or a private company. In the meantime the service is only from month to month; that is, the contract with the Yukon Southern is only from month to month.

Mr. MAYBANK: What contract is that? You say the contract is only from month to month. That is a contract between whom?

Hon. Mr. HOWE: Between the post office and Yukon Southern.

Mr. SISSONS: Now, is not the Yukon-Southern growing too fast; would it not come under the control of the C.P.R. as soon as that passes out?

Hon. Mr. HOWE: We had better say that while the Yukon-Southern majority stock is owned by the C.P.R. there is still a private interest in the Yukon-Southern.

Mr. GRAY: Well, the matter referred to by Mr. Maybank and Mr. Colyer, that there is no fear of it competing with Trans-Canada by means of these northern routes being bought up by the C.P.R.; is there not a real danger when it comes to the calling of contracts for your post office mail carrying that you will get to a point where you have no competition in bids?

Mr. MAYBANK: Would you not have that difficulty now?

Mr. COOLICAN: The Act protects the Trans-Canada.

Mr. GRAY: I appreciate that, but how are you going to protect your north-south routes?

Mr. COOLICAN: Of course, there is the danger there to the T.C.A., say if any other company took over a possible operating of a number of routes, operated by a private company or somebody else—well, that is a matter of business, I think; if T.C.A. when it takes over the main thing will take over the rest of it, we will endeavour to find some other way of operating with these other companies.

Mr. MAYBANK: That is notice to the competition through the organization which at the moment may have a monopoly; is that what you suggest?

Mr. COOLICAN: Not exactly that way; the country is liable to develop in such a way that some part of it may obtain an importance which may require a better performance than can be found amongst the small privately operated companies. When that time does come of course we have to consider how the rest of the service may be tied in to it to establish a competent service.

Mr. McCULLOCH: What is the situation with regard to the airport at Sydney?

Hon. Mr. HOWE: I think the airport is completed. I understand that radio beams are being installed at the present time and should be ready by August or September perhaps.

Mr. McCULLOCH: Will air mail be taken from Sydney?

Hon. Mr. HOWE: I think it is the intention to extend the mail service to Sydney.

Mr. McCULLOCH: I think at that time they would have that field at New Glasgow ready.

Hon. Mr. HOWE: I cannot say as to that.

Mr. McCULLOCH: I understand the Post Office Department would get quite a revenue from the towns along the way from Sydney to Halifax.

Hon. Mr. HOWE: A considerable expenditure has been made at New Glasgow, but I am not sure just when that will be completed.

Mr. McCULLOCH: There has been about \$25,000 spent on it now.

Hon. Mr. HOWE: Yes.

Mr. McCULLOCH: And, of course, the town of New Glasgow bought the land with the understanding that there would be an airport put there.

Hon. Mr. HOWE: Yes.

Mr. McCULLOCH: And I think the town of New Glasgow is growing so fast now, due I suppose to the war, that it will be necessary for an airport of some kind to be put there, even if it is one of the smaller type.

The CHAIRMAN: Shall we proceed with the balance sheet?

Mr. NICHOLSON: I had a question about passes some time ago and I understood there was to be a supplementary statement.

Mr. ENGLISH: Shall I read this?

The CHAIRMAN: Yes, whatever the answer is.

Mr. ENGLISH: It is quite long. It is a statement prepared in the same form as was submitted to the committee last year.

TRANS-CANADA AIR LINES

NON-REVENUE PASSENGERS, 1940

The issuance of free transportation on Trans-Canada Air Lines is governed by:—

1. Regulations promulgated by the Board of Transport Commissioners for Canada.
2. Contract with Post Office Department.
3. Arrangements with Department of Transport in regard to use of airway facilities and weather service.
4. Regulations of the Company which provide that:—
 - (a) Free transportation is issued on a space available basis, i.e. a holder of free transportation must make way for a revenue passenger even at an intermediate stop before final destination.
 - (b) An employee is allowed one vacation pass for self and one for one dependent member of family per annum.

The statement which follows gives the number of non-revenue passengers carried from January 1, 1940, to December 31, 1940. It does not include members of flight crews, air engineers, radio technicians, or other operations personnel whose duties require them to ride the aircraft for the protection of the service.

Employees of Department of Transport on business relating to civil aviation	805
Vacation passes, T.C.A. employees	784
Vacation passes, dependents of T.C.A. employees	688
T.C.A. employees on Company business	440
Children, two years of age or under, accompanying revenue passengers	249
Employees of Post Office Department on business relating to air mail services	47
Courtesy trips to members of the Press	85
Employees of Canadian Broadcasting Corporation on plane-to-ground broadcasts	3
Employees of National Research Council on test flights	10
Employees of airplane and engine manufacturers on test flights	29
Courtesy trips to municipal airport authorities	3
Employees of British Overseas Airways Corporation re Trans-Atlantic service	4
Employees of Civil Aeronautics Authority on inspection flights.....	5
Deportees	1
Total	3,153

We have to report that to the Dominion Bureau of Statistics in that form, although it actually is not free transportation; a child of two years of age is carried free providing it is accompanied by a parent.

M. POULIOT: Is there a radio beam all the way through the system?

Hon. Mr. HOWE: Yes, everywhere Trans-Canada goes.

Mr. NICHOLSON: This is a very different picture from what I got this morning when I asked my question. I understood there were no passes granted. I wonder what the explanation is?

Mr. COLYER: T.C.A. does not grant passes to outsiders, those not connected with the company's operations.

Mr. NICHOLSON: I knew that members of parliament were not granted passes. That was stated this morning. This is the information I wanted to get this morning and I understood from the remarks made then that there were none of these passes being granted. I do think as a matter of policy it would be wise not to issue any passes. These departmental officials who are travelling on business have expense accounts and I think could very easily arrange with the department to have expenses paid in connection with travel by air. I wonder if there is any explanation now as to why so many people were carried free on these lines?

Mr. COLYER: It appears to the management of Trans-Canada Air Lines that it is proper to grant employees of the Department of Transport space-available passes when it is necessary for them to travel in connection with airport and airway matters on Trans-Canada Air Lines. The Department of Transport provides us with our airways which we use across Canada and its own employees visit the airports in connection with matters relating to them. It seems entirely proper that we should give them space-available transportation. In other words, if there is somebody there who wants to buy a ticket why the government representative cannot go. In fact that applies to Trans-Canada Air Lines' own employees when travelling on the business of the company; if an air passenger shows up for a seat the company employee waits, or if it is necessary that he go immediately he travels by train. In other words, whenever there is a passenger for an available seat on an airplane the seat is sold.

The CHAIRMAN: In other words, you only allow them to occupy spare space?

Mr. COLYER: That would otherwise be thrown away, yes.

Mr. ROSS: That applies to vacation passes too?

Mr. COLYER: That is right. I might also mention this as happening on several occasions, that Department of Transport employees when it was necessary for them to get from one place to another buy up space in order to get a seat for that particular trip.

Mr. MAYBANK: And that does not alter the picture at all for the people of Canada, except that just one passenger less was available for revenue purposes.

Mr. COLYER: That he had business which in his opinion warranted the expense.

Mr. MAYBANK: But the Canadian people paid it.

Mr. NICHOLSON: What is the objection to placing all travel of the T.C.A. on a pay basis?

Mr. COLYER: Well, we have employees of the company whose services are required at different points across the system and they travel on company business. We think it is very much in the interests of the company that these employees should have the privilege of a free ride over the system once during the year as a vacation pass, together with one dependent member of his family. I may say that our regulations governing the granting of passes are ten times more stringent than those applying on air lines down in the states. For example, most of the air lines in the states give their employees and dependent

members of their families five annual passes as against one on T.C.A. It is important from the standpoint of the company that its employees—that includes ground employees as well as others—should travel the system occasionally to know what the operation is like. They get a better appreciation of what the company is doing when they ride its airplanes from one point to another.

The CHAIRMAN: Mr. Colyer, I heard you state a moment ago that a return trip used two passes; you say your employees get one pass a year, how are they going to get back, do they have to pay their way?

Mr. COLYER: Well, they get two passes on that basis, they get a round trip pass.

Mr. POULIOT: Mr. Colyer, will you please compare the item on page 12, \$2,832,000 and divide it by the weight of the mail carried in 1940 on page 6; is it not true that the cost of mail carrying is a little more than \$3 per pound?

Mr. COLYER: Yes, during that particular period.

Mr. JACKMAN: And you paid, how much a pound?

Mr. COLYER: I said the cost of carrying it—that is shown on page 6—we carried 9,327,000 pounds of mail—and on page 12 it shows that we received from the Post Office Department \$2,800,000. Then you divide the one figure into the other and it gives you around \$3 a pound.

Mr. POULIOT: Now, Mr. Colyer, will you please tell us if there is any increase in the frequency of air mail due to the fact that the services that existed were profitable, in other words, was the increase in the frequency of mail due to the fact that the quantity of mail was so big that it could not be handled by one service?

Mr. COLYER: You mean, did the second transcontinental increase the volume of mail?

Mr. POULIOT: Well, I will give you an illustration; take, for instance, the service between Ottawa and Toronto, is it a double service now?

Mr. COLYER: We now operate five round trips a day.

Mr. POULIOT: Now, was that increased from one to two because the first service was so profitable to the company that the company could not handle the mail in the first service?

Mr. COLYER: No, sir.

Mr. POULIOT: Then was the increase from two to three for the same reason; and from three to four and from four to five?

Mr. COLYER: No.

Mr. POULIOT: Then, what was the reason?

Mr. COLYER: Well, the answer to your question is rather involved. It requires a certain cost to set up an air line operation to operate one trip a day; you probably have a cost of operation over a dollar a mile for each mile flown. When you double that and treble it and quadruple it and bring it all down you are finally getting to a cost where the fixed charges on your system are relatively low, where your cost of operation per mile is half or even a third of what it was originally; so that the additional trips put on between Toronto and Montreal while they do not give any increase in the volume of mail in proportion to the number of trips they were aided by the mere fact that they provided greater efficiency in the use of equipment and ground personnel, and everything, and brought it up to a point where the passenger loads that were being carried more than off-set the additional cost of putting on the additional trips.

Mr. POULIOT: Therefore, Mr. Colyer, it was a disguised form of governmental subsidy.

Hon. Mr. HOWE: No; it is just an attempt to make the passengers pay some of the air mail rates by putting on the five trips; getting passenger revenue there to carry the reduced cost of carrying the mail on that particular trip.

Mr. MAYBANK: Mr. Colyer, at what point do you reach the condition of constancy respecting cost? You said that on the second trip there is a considerable reduction in cost and on the third trip there is a further drop and so forth. Now, of course you cannot get it to the point where eventually you get it down to the point where it costs nothing. Have you found that point?

Mr. COLYER: I heard a learned professor one day say that when you got it down to eight trips between two points and then you added an additional trip you got a very little reduction in the overall cost. I do not believe that is correct.

Mr. MAYBANK: You do not think eight is the right figure?

Mr. COLYER: I think it is higher than that. For example, to-day the American air lines operate 23 trips a day between Boston and New York. It would be my guess if they put on the twenty-fourth trip there would be very little effect on their per mile cost. I think it is a lot higher than eight.

Mr. MAYBANK: At any rate, between Ottawa and Toronto you have not reached that condition yet?

Mr. COLYER: No, sir.

Mr. MAYBANK: You would expect a further cost reduction in the six trips; is that right?

Mr. COLYER: Yes.

Mr. MAYBANK: You think it would be a higher figure than eight which the learned professor mentioned?

Mr. COLYER: Yes.

Mr. POULIOT: This does not include the cost of airports?

Mr. COLYER: It includes the cost—

Mr. POULIOT: Airports are not built by your company.

Mr. COLYER: No, but we pay rent for the use of them.

Mr. POULIOT: You pay rent for the use of them?

Mr. COLYER: Yes.

Mr. POULIOT: Every company using these airports is probably doing the same. You pay rent. How is the rent calculated, according to the service or how is it calculated?

Mr. COLYER: We pay \$150 a month for the first schedule and \$100 for each additional schedule.

Mr. POULIOT: That is standard.

Mr. COLYER: Yes, that is generally speaking. That is not exactly correct. Initially we made our arrangements with the municipalities, and most of them were made on that basis of \$150 a month for the first schedule and \$100 for each additional one. But with some of them we were not able to make exactly that sort of arrangement, but they are similar to that. Since all of the airports are operated by the Department of Transport we pay them.

Mr. POULIOT: Have you a similar arrangement with the St. Hubert airport?

Mr. COLYER: Yes.

Mr. POULIOT: There is an airport there which you use, of course?

Mr. COLYER: We pay rent there on the scale that I have just mentioned.

The CHAIRMAN: Gentlemen, we do not want to curtail discussion, but we should like to get through with these reports.

Mr. POULIOT: Just a moment. Therefore your expenditure for airports is not a capital expenditure?

Mr. COLYER: No, it is an operating expense.

Mr. JACKMAN: Last year it would appear the T.C.A. received from the Post Office Department \$2,832,363, and the revenue that the Post Office Department calculate they received from the air mail was \$1,854,000. Therefore there was a loss to the Post Office Department of some \$978,000 odd. Would the gentleman from the Post Office Department give us a corresponding figure since the inception of the mail contract with the T.C.A.?

Mr. COOLICAN: I have not got them here but I can provide them.

Mr. JACKMAN: Would you put them on the record for us? I am referring to the deficit which the Post Office Department shouldered as between the revenue they received in connection with air mail and the amount they have paid to the T.C.A. for carrying the mail.

The CHAIRMAN: For the total period?

Mr. JACKMAN: Yes, since the inception, year by year.

Mr. MAYBANK: It would really mean adding this year to last year's statement.

Mr. JACKMAN: How many years have the Post Office Department had a contract with the T.C.A.?

Mr. COOLICAN: Since 1937.

Mr. JACKMAN: How old is the T.C.A.?

Mr. COOLICAN: Since 1937.

The CHAIRMAN: Shall this report carry?

Carried.

The CHAIRMAN: Page 10.

Mr. ENGLISH:

BALANCE SHEET AT

ASSETS

Current Assets:

Cash	\$ 503,061 64	
Working Fund Advances	3,718 35	
Special Deposits	2,067 73	
Accounts Receivable	475,206 73	
Traffic Balances Receivable	139,791 66	
Balances Receivable from Agents	21,676 71	
Motor Fuels and Lubricating Oils	8,298 85	
Materials and Supplies	294,838 90	
Other Current Assets	14,066 80	
		\$1,462,727 37

Deferred Debits:

Prepayments—Insurance	\$ 27,441 04	
Other Deferred Debits	2,871 45	
		30,312 49

Capital Assets:

Property and Equipment	\$4,858,548 73	
Less Accrued Depreciation	1,332,153 71	
		3,526,395 02
		<u>\$5,019,434 88</u>

The CHAIRMAN: Gentlemen, before you proceed with the discussion of this portion may I say that probably we ought to let the officials of the Post Office Department go, and before doing so I should like to thank them for their courtesy.

Mr. JACKMAN: Perhaps I should add one more question to the questions I asked. Would they set forth opposite each year on the schedule of operating revenue the receipts from air mail and the amounts paid to the T.C.A. Just what the rate was for each year. It has been reduced from 60 cents to 45 cents.

Hon. Mr. HOWE: It has always been the same.

Mr. MAYBANK: Until recently. The 45-cent rate has gone in operation now?

Hon. Mr. HOWE: Yes.

Mr. JACKMAN: What is the present status of the contract between the Post Office and the T.C.A.? There was some amendment to the original agreement.

Hon. Mr. HOWE: Yes, an amendment to the Act deferred the automatic feature of the contract which allowed us to reduce the rate. There was a new contract to be made in 1941 and it provides a 60-cent rate till the 1st of April and a 45-cent rate thereafter. The change in the Act allowed us to give more reduction on the air mail than the automatic feature calls for.

Mr. COOLICAN: That goes into force on order in council. The contract originally made with the T.C.A. exists for ten years subject to variation in price which is done by estimating the amount of business done year by year, worked down according to the automatic feature of the contract.

31st DECEMBER, 1940.

LIABILITIES

Current Liabilities:		
Accounts Payable	\$ 390,542 64	
Traffic Balances Payable	18,913 19	
Salaries and Wages	57,103 85	
Other Liabilities	43,173 69	
		\$ 509,733 37
Deferred Credits		13,611 12
Self Insurance Reserve		206,827 24
Capital Stock:		
Common Stock Subscribed—Par Value	\$5,000,000 00	
Less Uncalled Subscriptions to Common Stock	1,250,000 00	
		3,750,000 00
Surplus		539,263 15
		<u>\$5,019,434 88</u>

T. H. COOPER,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the Trans-Canada Air Lines for the year ended the 31st. December, 1940.

We certify that, in our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the Air Lines as at the 31st. December, 1940 and that the relative Income Account for the year ended the 31st. December, 1940 is correctly stated.

GEORGE A. TOUCHE & CO.
Chartered Accountants.

18th. March, 1941.

Mr. JACKMAN: I have never seen the original contract. It is available, is it?

Hon. Mr. HOWE: The original Post Office contract?

Mr. COOLICAN: It is in the Act itself.

Mr. JACKMAN: In the statutes?

Hon. Mr. HOWE: Yes.

Mr. JACKMAN: The amendment is in statutory form too?

Hon. Mr. HOWE: Yes, that is right.

Mr. JACKMAN: As I recall it the automatic feature was to the effect that if the T.C.A. showed a profit that most of it or all of it was to be used in reducing the rate.

Hon. Mr. HOWE: Half of it. If we kept the automatic feature in we would have paid 53 cents a mile this year. Instead of that we are paying 45 cents a mile for the last eight months.

Mr. JACKMAN: The T.C.A. is doing exceedingly well, judging by this balance sheet.

Hon. Mr. HOWE: Yes, they are doing all right.

The CHAIRMAN: I think probably we should release Mr. Coolican and I should like to thank him and his assistant on behalf of the committee for their courtesy.

Mr. EMMERSON: I should like a further breakdown of the accounts receivable. Of what do they consist?

Mr. COOPER: Amounts due by the Post Office amounting to \$259,000 for the carriage of mail.

Mr. EMMERSON: \$259,000?

Mr. COOPER: \$259,000.

Mr. EMMERSON: What are the others?

Mr. COOPER: Department of Transport, \$38,000, Department of Munitions and Supply, \$25,000, National Defence department, \$10,000, British Ministry of Aircraft Production, \$15,000, Canadian Pacific Railway air services, \$9,000, British Overseas Aircraft Corporation, \$4,000, and different provinces for refund of gas tax.

Mr. MAYBANK: You do not pay the provincial gas tax?

Mr. COOPER: We pay it and collect it back.

Mr. NICHOLSON: The amount of \$21,000 balance receivable from agents is collectable, I presume?

Mr. COOPER: Yes, no doubt of that.

Mr. ROSS: In the 1939 report there was no item for other liabilities. In the 1930 report I notice there is an item of other liabilities to the extent of \$43,173. Roughly speaking, what does that include?

Mr. COOPER: \$43,000? We have some contractors' retained percentages and some provision for taxes.

Mr. ROSS: There was nothing like that in 1939.

Mr. COOPER: Presumably not, no.

Mr. ROSS: This is broken down mainly in the two items?

Mr. COOPER: Yes, it is in two items.

The CHAIRMAN: We shall now turn to page 12.

Mr. GRAY: I should like to go back to the point raised by Mr. Emmerson. I can understand the Post Office item and the provincial item, but I do not understand how these other amounts are made up. Are there services rendered in connection with them?

Mr. COOPER: Apart from the Post Office Department?

Mr. GRAY: Yes, I can understand the Post Office and the gasoline rebate.

Mr. ENGLISH: We are doing repair work, instrument repair work for the Royal Canadian Air Force.

Mr. GRAY: National defence?

Mr. ENGLISH: Yes, and the Department of Munitions and Supply have repairs on aircraft. They are all items of that nature.

Mr. EMMERSON: There are no services such as express and passenger service, transportation?

Mr. ENGLISH: No.

Mr. HAZEN: I should like to ask, Mr. Chairman, if this company owns any real estate.

Hon Mr. HOWE: It owns hangars.

Mr. HAZEN: These hangars would be built on the land. They own the hangars on the land but the land belongs to somebody else?

Mr. COLYER: We have a fifty-year lease at each place where we have a building.

Mr. HAZEN: You have a fifty-year lease on the property that you have your hangars on?

Mr. COLYER: Yes, sir.

Mr. HAZEN: At the end of that term who owns the improvements?

Mr. COLYER: We have set up in our operating costs a depreciation account. We depreciate a building over the fifty-year lease so it does not have any value on the books of the company at the end of the lease. The different leases that we have made with different municipalities provide different arrangements. It provides for renewals of the leases or we would have the privilege of disposing of the building or we could remove the building.

Mr. HAZEN: I thought you said you paid \$150 a schedule for the rent of the—

Mr. COLYER: For the use of the air field.

Mr. HAZEN: What does that amount to?

Mr. COLYER: \$150 each a month, \$1,800 a year for the first schedule.

Mr. DONNELLY: What do you write off for depreciation?

Mr. COOPER: 2 per cent.

Mr. ENGLISH:

INCOME ACCOUNT

YEAR ENDED 31st DECEMBER, 1940

Gross Revenue:

Passenger	\$1,574,217 33
Mail	2,832,363 20
Express	39,488 84
Excess Baggage	9,192 36
Other Transportation	27,744 63
Incidental Services	109,377 03
Total	<u>\$4,592,383 39</u>

Operating Expenses:

Aircraft—		
Operation and Maintenance	\$2,041,590 04	
Depreciation	595,723 68	
		<u>\$2,637,313 72</u>
Ground Facilities—		
Operation and Maintenance	\$ 688,869 99	
Depreciation	105,775 50	
		<u>794,645 49</u>
Incidental Services		63,830 97
Traffic and General Administration		301,256 51
Tax Accruals		58,887 35
Exchange, etc.		9,686 20
Interest on Capital Invested		187,500 00
Total		<u>\$4,053,120 24</u>
Surplus		<u>\$ 539,263 15</u>

STATISTICAL DATA

YEAR ENDED 31st DECEMBER, 1940

Route Mileage Operated	3,662
Plane Miles Flown—Revenue	4,770,219
Plane Miles Flown—Training	488,765
Revenue Passengers Carried	53,180
Percentage of Passenger Occupancy	63%
Average Passenger Journey—Miles	551
Mail Carried (Pounds)	927,037
Express Carried (Pounds)	105,788
Excess Baggage Carried (Pounds)	50,559

Mr. JACKMAN: The percentage of passenger occupancy, 63 per cent, is not quite the same as was given to us before.

Mr. COLYER: That is the entire system, and when I gave you 74 per cent I was speaking of the Transcontinental.

The CHAIRMAN: Is there any further discussion?

Mr. JACKMAN: Yes.

Mr. ROSS: Under the "Income Account" what are these incidental services, \$109,377.03?

Mr. COLYER: That is on gasoline and oil and the sale of services to the Department of Munitions and Supply and the R.C.A.F., and so on.

Mr. GRAY: How does that percentage compare with the Trans-Canada lines in the United States?

Mr. COLYER: I think our load factor is higher.

Mr. JACKMAN: Inasmuch as we have not get competing lines to compare with this, could you tell us something about your operating ratios as compared with the American Lines?

Mr. COLYER: They are just about the same.

Mr. JACKMAN: You are not higher than the typical American Lines?

Mr. COLYER: We are higher than some—97·3. There may be some that are higher.

Mr. JACKMAN: You are a fast growing company; it might be expected that you would have some developmental expenses which some of the older lines in the States would not have.

Mr. COLYER: We have had them every year.

Mr. JACKMAN: But your operating expense to your gross revenue compares favourably with the American Lines?

Mr. COLYER: Well, some of the air lines down in the States made a very large profit and some of them lost money. It worked out that Trans-Canada showed a profit at the end of the year of over \$500,000. I think the American Air Lines showed a profit of approximately \$2,000,000 last year.

Mr. JACKMAN: It is a little difficult to ask the management whether or not it is good, because we have no way of telling inasmuch as we have not got comparable air lines against which to check your results; so I am really asking for a frank statement from the management as to how its costs are as compared with its revenue, also how its administrative charges compare as to percentages of its total revenue, comparatively speaking.

Mr. COLYER: I do not know whether I should answer your question directly or not, because I might be accused of belittling ourselves or of boasting, one way or the other.

Mr. JACKMAN: That is all right.

Mr. COLYER: We think Trans-Canada Air Lines has operated efficiently, or with an efficiency comparable with the air lines in the United States. At least, we hope that it has.

Mr. JACKMAN: I am sure the spirit and endeavour is there but does that result suggest the same conclusion?

The CHAIRMAN: Do I understand that you are asking for a definite report with regard to their operations?

Mr. JACKMAN: I should like to know how it compares with comparable lines in the States as regards certain definite ratio lines of management.

The CHAIRMAN: Probably the officials would be prepared to supply you with a report but it might just as well not go into the record.

Mr. JACKMAN: I should think there is no secret about it.

Mr. COLYER: I think Mr. Howe could probably tell you; he knows about the air lines in the States and he knows about Trans-Canada.

Hon. Mr. HOWE: We have certain factors that work against us. Our planes cost about 50 per cent more than the planes in the United States on account of the duty. Our gasoline costs probably 50 per cent more than in

the United States. Even absorbing these costs, I think that our efficiency compares very well with the situation in the States. As we develop traffic here, I believe we are headed for just as low rates in Canada as they have in the United States, and I think we can still offer those rates and maintain profitable operations.

Mr. JACKMAN: For instance, "Traffic and general administration \$301,256.51" against a gross revenue of \$4,592,383.39 does seem like a pretty fair percentage for a line of this size.

Mr. COLYER: I would say that our costs in that respect are lower than the average costs in the United States. We have made those comparisons ourselves. Where we are handicapped is in our operating costs; that is, the expense of buying equipment, buying spare parts, and so on. We have figures, and I think our figures are fairly accurate, and these figures of our operating costs are increased by 20 per cent on account of the direct taxes that we are required to pay in the way of duty, sales tax and so on. We might go just one step further and show you that you have got a fairly satisfactory picture as far as Trans-Canada Air Lines is concerned when you take that into consideration. It was mentioned a little while ago that the difference between the income of the Post Office Department and the amount it paid Trans-Canada to perform the services was approximately \$1,000,000 for the year 1940. Of that \$1,000,000 Trans-Canada has \$539,000 in the bank. It is still the property of the Dominion Government. Twenty per cent of our operating costs were direct contributions to the Dominion Government. Twenty per cent of \$4,000,000 gives you nearly \$800,000 which the Dominion Government collected on account of the operation of the Trans-Canada Air Lines. So, when you take the whole thing into consideration, the fact that Trans-Canada is owned and operated by the Dominion Government and the Post Office Department is owned and operated by the Dominion Government, you have something net there besides the money which Trans-Canada has in the bank.

Mr. JACKMAN: I am sure the minister will be very glad I asked the question.

Mr. DONNELLY: I move that the annual report of Trans-Canada Air Lines be adopted.

Mr. JACKMAN: I have one or two questions yet, Mr. Chairman. Did the Trans-Canada have any deficits for which cash was advanced by the government?

Mr. COLYER: Yes, sir. Until this year we had a deficit every year.

Mr. JACKMAN: Which was advanced by the government?

Mr. COLYER: Under the Trans-Canada Act we were reimbursed in the amount of our deficit each year.

Mr. JACKMAN: I wonder if we could have that set forth in a table in the evidence?

Mr. COLYER: We have the figures here.

Our deficit for 1937 was \$11,005.07.

For 1938 the deficit was \$818,025.86.

For the year 1939 our deficit was \$411,656.59.

Mr. JACKMAN: I notice you have "Interest on capital invested \$187,500." It is rather odd to describe what you are paying for capital stock as interest.

Hon. Mr. HOWE: It is so stated in the Act. The Act provides that the railway will be paid 5 per cent interest on its investment.

Mr. JACKMAN: Even though it is stock?

Hon. Mr. HOWE: Yes.

Mr. JACKMAN: It is obvious that the air lines is becoming embarrassed with the working capital in the form of cash just now.

Hon. Mr. HOWE: No.

Mr. JACKMAN: What are you going to do with it, buy some of the new loan or declare a dividend?

Hon. Mr. HOWE: If it gets too burdensome we may use it to retire stock, or something of that sort.

Mr. COLYER: The earning of \$530,000 last year has precluded the necessity for our calling in some of the authorized capital stock. We have still \$1,250,000 worth of capital that has not been called.

Mr. JACKMAN: Are the fares on the planes subject to this new 10 per cent tax?

Mr. COLYER: Yes, sir.

Hon. Mr. HOWE: Gasoline is also subject to the 3 per cent tax.

Mr. HANSON: Mr. Chairman, I second Mr. Donnelly's motion.

The CHAIRMAN: Gentlemen, it has been moved by Dr. Donnelly and seconded that the report of the Trans-Canada Air Lines be adopted as read. All in favour. (Carried).

Just before we declare it fully carried I should like to refer to your point, Mr. Hanson, about our not having completely covered this first part of the report signed by Mr. Hungerford. We had better get it straightened out before it goes in.

Mr. HANSON: You stopped reading at "Property and Equipment."

The CHAIRMAN: I thought we read it all.

Mr. HANSON: You did not read page 7 at all.

Mr. JACKMAN: You stopped there.

The CHAIRMAN: Is it your wish that the whole thing be embodied in the record?

Mr. HANSON: I so move.

The CHAIRMAN: Is it the intention of the committee to meet to-night?

Mr. McCULLOCH: I move that we meet at 8.30 o'clock; there are a lot of these officials from Montreal who want to get back.

Mr. DONNELLY: I second that motion.

Mr. JACKMAN: I object to the motion.

The motion carried:

The CHAIRMAN: The next is the annual report of the Canadian National Railway system. Mr. Hungerford would like to make a few observations in connection with the Canadian National Railways before we proceed with the consideration of the report.

Mr. HUNGERFORD: I should just like to touch on a few of the highlights of the report and the affairs of the company in 1940. The statement I have prepared reads as follows:—

As supplementing the annual report of the Canadian National Railways, the following observations will, I think, be of use to the committee:—

The gross revenues of the Canadian National Railways in 1940 were \$247,500,000. After the payment of all operating expenses, the net operating revenues were \$45,000,000, an improvement of \$24,000,000 over 1939. From net operating revenues were deducted taxes of \$6,250,000 and other charges, leaving \$38,000,000 for fixed charges. The fixed charges were \$53,000,000, \$49,000,000 of this being interest on securities in the hands of the public. The railway failed to earn by the sum of \$17,000,000 its total fixed charges of \$53,000,000. As stated in the annual report,

your directors are hopeful that this year the property will earn its fixed charges, provided that there is no considerable disturbance in present traffic levels, wage scales or material prices.

The following facts regarding the performance of the Canadian National Railways in 1940 indicate the increased efficiency of operation on the system:

The average amount of freight carried per train was greater than in any previous year.

Freight was transported over the rails at an average speed approximately 40 per cent greater than in 1923.

Freight train performance per hour was the best ever attained, being an improvement of more than 75 per cent since 1923.

The utilization obtained from freight cars was greater than ever before.

Fuel efficiency in freight service was the highest ever attained.

The number of freight cars in need of repairs was the lowest on record.

The effect of this general improvement in efficiency measured in dollars and cents is seen in a comparison of the operating results in 1940 with the operating results for 1924. The gross revenues were almost identical in those two years, but the net revenue in 1940 was \$26,000,000 greater than in 1924. Furthermore, during the intervening years, 1924-1940, the average revenue received for hauling freight (per ton mile) was reduced by 11 per cent. Had the same average freight rates been in effect in 1940 as in 1924, the net revenue last year would have been improved by an additional \$25,000,000. Comparisons with other years show the same continuing improvement in operating performance.

The 1940 operating ratio—that is the relationship of operating expenses to operating revenues—was the lowest for any year in the system's history.

As mentioned in the annual report, Canada's participation in the war has brought greatly increased demands upon the national railway system and upon the railways generally. During the great war 1914-1918, Canadian railways performed a magnificent task, handicapped as they were with uncompleted lines and inadequate equipment but notwithstanding tremendous efforts, congestion did occur and traffic embargoes were numerous. At the present time the freight traffic volume is 45 per cent in excess of the peak year of the last war, a fact not generally recognized. The increased tonnage is, moreover, being handled without serious delays to traffic.

The CHAIRMAN: I will now ask you to proceed with the report, Mr. Armstrong.

Mr. ARMSTRONG: This is the report of the Canadian National railways system for 1940. It reads:—

Montreal, 19th March, 1941.

The Honourable P. J. A. Cardin, K.C., M.P.,
Minister of Transport,
Ottawa.

SIR,—In conformity with sections 14 and 15 of The Canadian National—Canadian Pacific Act, 1936, the Board of Directors submit the following report of the operations of the Canadian National Railways for the calendar year 1940.

RESULT OF OPERATIONS

	1940	1939	Increase or Decrease
Operating Revenues	\$247,527,224 81	\$203,820,186 62	\$43,707,038 19
Operating Expenses	202,519,812 88	182,965,768 18	19,554,044 70
Net Operating Revenue.....	\$ 45,007,411 93	\$ 20,854,418 44	\$24,152,993 49
Other Income and Profit and Loss Requirements	11,532,968 88	10,219,395 11	1,313,573 77
Net available for Interest.....	\$ 33,474,443 05	\$ 10,635,023 33	\$22,839,419 72
Interest on Funded Debt held by Public	48,701,523 73	49,814,377 90	1,112,854 17
Interest on Government Loans.....	1,737,963 50	916,165 01	821,798 49
Cash Deficit	\$ 16,965,044 18	\$ 40,095,519 58	\$23,130,475 40

Canada's participation in the war has brought greatly increased demands upon the National Railway system. These demands have been met in full.

It is gratifying to be able to report an improvement in the financial results. It will be noted net operating revenue, which represents the amount of gross revenue remaining after the payment of all operating expenses, was \$45,007,000. This is an improvement of \$24,152,000 or 116 per cent over the corresponding figure for 1939. The operating ratio in 1940 was 81·82 per cent, which is the lowest in the history of the system. Of every additional dollar of revenue, operating expenses absorbed 45 cents, leaving 55 cents available for taxes and fixed charges. Net available for interest was \$33,474,000, an increase of \$22,839,000 over 1939.

Operating Revenues

Operating revenues totalled \$247,527,000, an increase of \$43,707,000 or 21·4 per cent over the preceding year. The increase was singularly uniform over the different services: freight revenues increased 21·4 per cent; passenger revenues 21·8 per cent; and mail, express and miscellaneous revenues 21·4 per cent. The increase on the lines of the company in Canada was 22·7 per cent and on the lines in the United States 14·5 per cent.

Freight revenue increased \$34,307,000; passenger revenue \$3,885,000. Details of the traffic handled are shown elsewhere in this report, but the bare statistical tabulations inadequately record the increased use of rail transportation in the national war effort. Behind these figures are to be discerned the movement of large numbers of men for training and active service, the long trains of construction material and equipment moving to new training centres and munition plants, the supply of war materials to the places of manufacture, and the ever increasing movement to ocean ports of war materials and the products of the mines, forests and farms of Canada.

Operating Expenses

Operating expenses totalled \$202,519,000, an increase of \$19,554,000 or 10·7 per cent over the preceding year. The relationship between increased revenue and expense is considered satisfactory, and the railway and its equipment have been adequately maintained.

The additional traffic created additional employment for railway workers. The number of employees increased by 4,702 to 82,831.

Prior to 1940 it was the practice of the railway to charge operating expenses with the loss on equipment destroyed or worn out in service when the equipment units were retired permanently from service. It is improbable there will be in the immediate future retirements on the same scale as in recent years, and in order that the operating expenditure accounts for each year may bear their proportionate share of equipment retirement costs, irrespective of the date of retirement, the directors decided to adopt depreciation accounting on rolling stock and floating equipment owned by Canadian National-Canadian Lines, effective from

January 1st, 1940. A similar practice by Canadian National Lines in the United States has been in effect for some time under regulations of the Interstate Commerce Commission, so that there is now in effect throughout the system a uniform method of accounting for equipment retirements which conforms to the general practice followed by Class I roads in the United States. The depreciation charge against the 1940 rail line operating accounts was \$11,307,000.

Other Income and Profit and Loss Requirements

The accounts in this group show an increased charge of \$1,313,000 over 1939.

Taxes amounted to \$7,039,000, approximately the same as in 1939. This figure is exclusive of sales taxes which are added to the cost of materials and which amounted to \$4,214,900 in 1940. The net operating income from hotels was \$502,000: the corresponding amount in 1939 was \$302,000. The net cost of acquiring United States and sterling exchange increased \$1,151,000. Per diem payments for foreign line freight cars increased \$560,000.

Interest Charges

The total requirements for interest on funded debt held by the public in 1940 were \$48,701,000, being \$1,112,000 less than in 1939.

Interest payments to the Government on temporary loans for capital purposes were \$1,737,000, being \$821,000 more than in 1939.

Cash Deficit

The net operating revenue for the year 1940 was \$45,007,000. Taxes, interest on funded debt, interest paid to the Government, etc., totalled \$61,972,000, leaving a cash deficit for the year of \$16,965,000, an improvement of \$23,130,000 compared with 1939. Full details are given in the accounting statements accompanying this report.

CAPITAL EXPENDITURE ACCOUNT

The net expenditures on property investment account for the year 1940 amounted to \$17,398,971, made up as follows:

Equipment purchased or built.....	\$17,098,358
Equipment retired.....	8,348,943
General betterments to equipment.....	51,377
Equipment conversions and transfers.....	168,325
Express and miscellaneous equipment.....	169,738
Yard extension at Turcot, Que.....	134,673
New engine terminal at Fairview, N.S.....	305,608
Locomotive erecting shop at Moncton, N.B.....	290,416
Coaling plants at Campbellton and Chipman, N.B.....	41,918
Track extensions on New Glasgow division, N.S.....	98,454
Track extensions at Truro, N.S.....	85,583
Yard extensions at Moncton, N.B.....	225,135
Montreal Terminal Development.....	3,599,076
General additions and betterments, less retirements.....	3,815,903
	<hr/>
	\$17,398,971

The extension and rearrangement of yard, terminal and track facilities above referred to were necessary for the efficient handling of the increased traffic to and from Atlantic ports.

The following equipment was acquired during the year: 2,765 box cars, 500 flat cars and 25 Northern type locomotives (all of which were ordered in 1939 to meet anticipated war requirements), and 5 mail express cars, 4 coaches, 25 baggage cars, 60 refrigerator cars, 150 ballast cars, 15 cabooses and 21 work units.

The following equipment was retired during the year: 25 locomotives, 2,018 freight train cars, 23 passenger train cars, 834 work units and 6 units of floating equipment. The loss has been charged to depreciation reserve.

FINANCE

No security issues fell due for retirement during the year other than the normal annual payments of principal under equipment trust, sinking fund and serial issues, which totalled \$8,548,182. This amount was financed through temporary loans from the Government.

No public financing was done. Under an arrangement made between the Government, the Canadian Pacific Railway Company and Canadian National Railway Company for the acquisition by the two railways of the additional rolling stock ordered in 1939 to meet anticipated war requirements, to be financed in the first instance by the Government, a hire-purchase agreement was entered into by this company, dated December 7th, 1940, under which the company is obligated to pay a principal sum of \$14,879,524 in fifteen annual instalments, 1941-1955, with interest at the rate of $3\frac{1}{2}$ per cent per annum.

Redemption of Debenture Stock

The outstanding funded debt of the Canadian National Railway Company has included £24,624,455 of 4% perpetual consolidated debenture stock issued by the former Grand Trunk Railway Company of Canada, payment of the interest on which was guaranteed by the Dominion pursuant to the provisions of The Grand Trunk Railway Acquisition Act, 1919. Under an order dated October 26th, 1940, made by H. M. Treasury of the United Kingdom, such portion of the said debenture stock as was held by residents in the United Kingdom was transferred to the Treasury. The vesting price was £103.17.4 per £100 stock surrendered, payable November 26th, 1940, plus £0.7.1 accrued interest. The vesting order was made upon the condition that the Canadian National Railway Company would purchase the stock from the Treasury at the vesting price. By Order in Council P.C. 6002 dated October 25th, 1940, made under and by virtue of the Canadian National Railways' Financing and Guarantee Act, 1940, and the War Measures Act, the company was authorized to purchase the securities and the Minister of Finance was authorized to make loans to the company for the purpose, such loans to bear interest at the rate of $3\frac{1}{2}$ % per annum, to be repayable on demand and secured by promissory notes and by the securities so purchased.

At the date of closing the 1940 accounts the amount of securities held by residents of the United Kingdom had not been definitely determined, and the accounts have been closed on the basis that a total of £22,500,000 will be redeemed. Any necessary adjustment will be entered in the accounts for the year 1941. The redemption of this amount at the prevailing sterling exchange rate effects a reduction in the outstanding debt of the railway of \$5,503,500. This has been accounted for as a capital gain through the Proprietor's Equity Account. The transaction has also resulted in an annual interest saving of \$740,000, but against this the railway will lose the present benefit (\$357,000) obtained through the payment of interest in sterling.

Under date of December 14th, an offer was made by the company to acquire from residents of Canada their holdings of this stock at a price of 94.55% flat in Canadian funds (equivalent to a sterling price of £103.17.4 per £100 converted at the rate of \$4.43 to the £) on January 15th, 1941, or at the sterling price if preferred by the holder. The stock acquired under the terms of this offer will be accounted for in the 1941 accounts.

Co-operation

During the year the Board of Transport Commissioners granted permission to abandon the following lines of railway in co-operation with the Canadian

Pacific Railway:

From	To	Province	Railway	Mileage
Joliette	Montfort Jct.....	Quebec	Can. Nat.....	31.6
Carbo	Cushing Jct.....	Quebec	Can. Nat.....	24.6
Arnprior	Eganville	Ontario	Can. Nat.....	37.9
Alex	Nevis	Alberta	Can. Nat.....	9.5
Red Deer Jct.....	Red Deer.....	Alberta	Can. Nat.....	5.1
				<hr/> 108.7 <hr/>

In addition to the above, the Board issued a judgment recommending the abandonment of 18.9 miles of the Canadian Pacific and 12.6 miles of the Canadian National, between Dranoel and Medonte, in Ontario, but no approving order has yet been issued. The Board refused the application for abandonment of the Canadian National line between Louise and Deloraine, Manitoba, a distance of 56.7 miles. Application to abandon the Canadian Pacific line between Cataract and Fergus, Ontario (24.7 miles) was made during the year and this, with other previous applications in co-operation with the Canadian Pacific Railway and Northern Alberta Railways, representing 133.8 miles of Canadian National lines, 219.2 miles of Canadian Pacific lines and 29.8 miles of the Northern Alberta Railways, is now before the Board awaiting its decision.

Branch Line Abandonments

Applications were made during the year to the Board of Transport Commissioners for permission to abandon the following Canadian National unprofitable light traffic branch lines:

From	To	Province	Mileage
Hampton	St. Martins.....	New Brunswick.....	28.8
Marmora	Cordova Mines.....	Ontario	6.2
Alvinston	Kingscourt	Ontario	9.7
Parisville	Deschailions	Quebec	3.5
Tweed	Yarker	Ontario	33.9
Napanee	Deseronto	Ontario	6.3
Whitby	Port Perry.....	Ontario	17.5
Clinton	Wingham	Ontario	22.9
			<hr/> 128.8 <hr/>

The first three mentioned applications were granted by the Board: decisions are pending in the other cases. In addition, the Board approved of the application submitted in 1939 for abandonment of the line between Fortierville and St. Gregoire, Quebec, a distance of 27.3 miles.

Special War Activities

There are no limitations to the willingness of the company or its employees to serve the war effort in any direction. The company's plant facilities and its skilled personnel constitute a reserve always available in time of national emergency, and this reserve is being utilized in numerous ways. Employees who have enlisted for active service number 1,859. Fifty-three officers and employees have been loaned to the Government for the duration of the war, and a large number of officers and employees with special qualifications have been loaned to the Government for temporary periods. The company's Land and Survey Departments were employed by the Government to look after the acquisition of sites for airports, munition plants, etc. The St. Malo Shops at Quebec have been turned over completely to the Department of Munitions and Supply and the railway work transferred to other railway shops. The "Prince Robert" and "Prince David" have been taken over for naval

service by the Department of National Defence. The shipbuilding facilities of the company are being utilized for the construction of naval vessels; machine tools are being manufactured in the railway shops and preparations are under way for the manufacture of guns, gun carriages, etc. War saving stamps are on sale by all railway express and telegraph agents as well as in the shops and terminals.

Outlook for 1941

The outlook for 1941 is for a further substantial increase in traffic, and the directors are hopeful the property will earn its fixed charges and will not require any appropriation by Parliament on deficit account. To accomplish this result the net revenue, after payment of operating expenses, will need to be in the neighbourhood of \$63 millions, this being the amount required to pay taxes, interest due to the public and to the Government, etc. This forecast is based on present traffic trends and on a continuation of existing wage scales and material price levels. The situation of course contains many factors impossible of prediction, and the forecast will be viewed accordingly, but with these reservations the directors believe this year will afford an opportunity for the railway system again to demonstrate its ability to pay its way given an amount of traffic commensurate with its capacity. But much more important than the relief thus afforded to the national budget is the ability of the National Railway System to meet the needs for efficient transportation service required by the tremendous effort which the Dominion is making for the successful prosecution of the war. The railway will be tested during 1941 as never before. The condition of the railway, its motive power and rolling stock is good. The employees are loyal, capable, and keen to do all that is required of them. The directors are confident the National Railway System will continue to meet all demands upon it in this most decisive period in Canada's history.

For the Board of Directors,

S. J. HUNGERFORD,
Chairman.

Mr. POULIOT: Could we adjourn until to-morrow morning?

The CHAIRMAN: It is now five minutes to six; shall we proceed with discussion or adjourn until this evening?

Some Hon. MEMBERS: Adjourn.

The committee adjourned at 5.55 o'clock p.m. to meet again at 8.30 o'clock this day.

(EVENING SESSION)

The Committee Resumed at 8:30 P.M.

The CHAIRMAN: Order, gentlemen. We finished reading the report before the dinner recess; now it is in your hands.

Mr. NICHOLSON: I wish the president would make some reference to the possibility of wage increases during the year having some effect on the net revenues for the coming year. What is the present position in connection with the dispute over wages with the employees of the two companies?

Mr. HUNGERFORD: The matter is before conciliation boards at the present time. That is all we can say.

Mr. NICHOLSON: I note there is a net income in connection with hotel operations of \$502,000. Are there any of the hotels that have been operating at a loss for the year and if so would you tell us about them.

Mr. COOPER: The Charlottetown hotel lost \$4,636; the Pictou Lodge lost \$6,507; the Fort Garry lost \$31,105; Macdonald hotel lost \$347; the Nova

Scotian had a profit of \$84,000; the Chateau had a profit of \$395,000; the Prince Arthur had a profit of \$2,000; the Minaki Lodge, \$5,000 profit; Prince Edward hotel \$2,000 profit; Jasper Park \$41,000 profit; the Bessborough \$13,312 profit.

Mr. NICHOLSON: That is good business for the company.

Mr. HANSON: What about the Vancouver hotel?

Mr. COOPER: The Vancouver hotel is operated jointly by the Canadian National and the Canadian Pacific. In 1940 it had an operating profit after taxes and depreciation of \$73,701.

Mr. JACKMAN: I wonder if we might have a statement on the hotels amplified by the submission of a small operating statement giving gross revenue, expenses, operation, net revenue, taxes and also additional capital expenditure for each hotel during the past year?

Mr. COOPER: Yes. We will have a statement prepared and have it printed with the minutes.

Mr. JACKMAN: Yes, have it incorporated in the minutes. In connection with the jointly operated hotel in Vancouver I see that you had an item of depreciation there. Are you setting up depreciation on the hotels now?

Mr. COOPER: Did I say depreciation?

Mr. JACKMAN: Yes. You said after depreciation and taxes.

Mr. COOPER: In the agreement respecting the operation of the Vancouver hotel is a requirement that we take up depreciation on the furniture and furnishings at the rate of 5 per cent per annum, but not on the building or fixtures. We depreciate the furniture and furnishings but not the structure or the fittings.

Mr. JACKMAN: Do you make use of the legal term "fixtures"? Do you depreciate fixtures?

Mr. COOPER: No; furniture and furnishings only are subject to depreciation.

Mr. JACKMAN: It is an arbitrary classification that you have. I cannot find out what the classification is unless we know just what you happen to put into it. It is not known elsewhere what the difference is between fixtures and real estate.

Mr. COOPER: I do not quite understand—

Mr. JACKMAN: "Fixtures" have a definite legal connotation. If you say that you depreciate fixtures or real estate I know what you are speaking about.

Mr. COOPER: For instance, a bath would be a fixture, but we do not depreciate baths or electric light fixtures or things like that; we depreciate the moveables.

The CHAIRMAN: We call them furnishings.

Mr. JACKMAN: Let us have a statement. A fixture is something that is moveable and is taken away by the tenant.

Mr. COOPER: No, not a fixture.

Mr. ROSS: That is a furnishing.

Mr. NICHOLSON: Have you a statement for the last five years showing the profit and loss for those hotels? Is that available? Could you let us know how last year's business compared with the previous five year's business?

Mr. COOPER: We have filed in the minutes of this committee year by year a statement of the hotel operations by the individuals hotels.

Mr. NICHOLSON: I am a new member.

Mr. COOPER: Instead of a statement for the year 1940 we will make the statement for five years.

Mr. NICHOLSON: I would like to have an idea of the profit and loss for the entire system of hotels for those five years. I do not want the details of each.

Mr. COOPER: We can give that.

Mr. JACKMAN: How much were the total capital expenditures last year on the hotels system and also for 1939 if you have that?

Mr. COOPER: 1940, the capital expenditures on the hotels operated by the Canadian National Railways were \$118,240.

Mr. JACKMAN: For 1939?

Mr. COOPER: \$68,723.

Mr. NICHOLSON: In connection with this item "Branch Line Abandonement", I notice by the press in connection with this branch from Clinton to Wingham, 22.9 miles—I understand there is a township by the name of Hullet threatening court action as the result of the proposal to close this line. I believe there is some agreement going back to the time when the line was first built that held the company responsible for certain payments if the service should be discontinued. Have you any information on this subject?

Mr. ARMSTRONG: The Board of Transport Commissioners has given permission to the railway to abandon the line, despite the agreements, but the board has issued the order, without prejudice to any claim which the township may take in the courts against the railway. Of course, no claim has been taken so there is no action necessary.

Mr. SHAW: Is the decision of the Board of Transport Commissioners final in this regard or has the minister authority over the deliberation of that body?

Hon. Mr. CARDIN: Not the minister, but there is an appeal to the Governor in Council.

Mr. NICHOLSON: You say that no action has been taken by the township in this case?

Mr. ARMSTRONG: No court action.

Mr. NICHOLSON: The press despatch I saw indicated that the township had taken some action.

Mr. ARMSTRONG: I believe they have taken the matter up with the railway. As far as I know there is no case in the court.

Mr. ROSS: The line has not been abandoned, has it?

Mr. ARMSTRONG: No, it has not yet been taken up or dismantled.

Mr. NICHOLSON: The service has been discontinued on that line.

Mr. ARMSTRONG: Yes.

Mr. SHAW: With regard to this same matter where the C.P.R. and the C.N.R. have parallel lines and one has been removed, what effect is that likely to have upon the freight rate, because after all they have been operating on a competitive basis and we find people greatly concerned in certain areas over this matter. Is there any measure of control over the freight rates structure?

Mr. ARMSTRONG: Only through the Board of Transport Commissioners.

Mr. SHAW: Will they set the rate or will you appeal to them?

Mr. ARMSTRONG: I do not know that they will set the rates, but they will adjudicate on any application that is made in connection with the rates.

Mr. MAYBANK: As far as the public are concerned they can only bring it to the attention of the Board of Transport Commissioners by letter or some other similarly informal way.

Mr. ARMSTRONG: There is a case in point, the line from Arnprior to Eganville, which is now before the board. It is on that very point in connection with

increased freight rates on account of the abandonment of the Canadian National and the re-routing of the traffic along the longer route. That is now before the board.

Mr. JACKMAN: There is the item "Other Income and Profit and Loss Requirements \$11,532,000" odd; I suppose that is broken down elsewhere in the account?

Mr. COOPER: Yes, on page 13.

The CHAIRMAN: Had we not better get through with this and then proceed?

Mr. NICHOLSON: There is one other question I would like to raise. I have travelled over some of these branch lines in Ontario and I was struck with the frequency of the service and the small number of people travelling. On several occasions I have had a private car almost to myself. In western Canada with that kind of traffic available people would be lucky if they had a service two or three times a week. Could we have any information as to whether those branch lines in Ontario are paying or not or whether they are being operated at a loss?

Mr. ARMSTRONG: Have you any particular line in mind?

Mr. NICHOLSON: I was up in Wellington, Gray and Bruce. There seemed to be very few people travelling and they had one passenger train each way and one mixed train each way.

Mr. ARMSTRONG: There is, of course, quite a mileage in the Canadian National which in the public interest is operated at a loss. That is to give service to the public. There are many miles operated as a public convenience, and if we applied to the Board of Transport Commissioners we probably would not get permission to abandon because of the public inconvenience that would follow. I think we applied at one time a program of 800 miles of line and the board granted somewhere in the neighbourhood of 400 or 500; the balance was considered to be necessary in the public interest. The particular line you mention, I am not certain whether it is in that category or not, but there is quite a number of them.

Mr. NICHOLSON: I have had experience with boards of trade in the west on a number of occasions trying to get passenger service and a tri-weekly mixed service, and we have had great difficulty in getting improved service. The argument has been that the revenue would not warrant any improved service. I wonder if the same argument was used down in eastern Canada where they have such good service in most places.

Mr. ARMSTRONG: I do not think there is any untoward discrimination, if that is what you mean.

Mr. MAYBANK: Your operating revenue should be pretty close to \$44,000,000. You say that is due to the generally changed conditions arising from the war mainly. There is no special explanation for that?

Mr. ARMSTRONG: No.

Mr. MAYBANK: And the heavier traffic due to the war?

Mr. ARMSTRONG: Very largely due to the war, yes.

Mr. MAYBANK: You are up about \$20,000,000 on expenses.

Mr. ARMSTRONG: Yes, sir.

Mr. MAYBANK: I suppose that is partly personnel, is it? In a not completely exact way but in a general way, can you give us a reason for that increase?

Mr. ARMSTRONG: When you get additional traffic you cannot absorb it all with your regular train service; naturally you must increase your train service. We think we have a fair record for last year in that for every dollar we took in in additional revenue we spent 45 cents. That is, in the opinion of the railroad, a very good operating ratio on additional business. That is additional labour and material.

Mr. MAYBANK: To what extent has personnel increased?

Mr. ARMSTRONG: 4,702.

Mr. MAYBANK: On what page does that appear?

Mr. ARMSTRONG: Page 5. The personnel increased to 82,831, which is an increase of 4,702 over 1939.

The CHAIRMAN: What about these redemption operations, Mr. Armstrong? They were not able to touch these permanent 6 per cent bonds, were they?

Mr. COOPER: No.

The CHAIRMAN: I was wondering if conditions brought about by the war would have any effect on their being able to overcome that difficulty.

Mr. COOPER: This, of course, is a matter between the finance department, the Bank of Canada and the Bank of England. The only securities which were dealt with last year were the Grand Trunk 4's.

Mr. JACKMAN: There is a 6 per cent issue out in sterling?

The CHAIRMAN: Permanent bonds.

The CHAIRMAN: Perhaps we had better wait until we get to it.

Mr. MAYBANK: It comes in on the page on redemption work.

The CHAIRMAN: Let us leave it, then.

Mr. MAYBANK: I mean I thought it should come in here. It is under that word "redemption" that you read out yourself.

The CHAIRMAN: I do not think so. I think it makes a shoe horn into it.

Mr. MAYBANK: I have no desire to deal with it at the moment. I thought it was all right.

Mr. JACKMAN: In connection with soldier fares where they get half the rate, does the government pay the other half or do the railroads carry them at half the rate

Mr. ARMSTRONG: At the present time there is a special fare for troops on furlough; that is all the railroads get.

Mr. JACKMAN: The railroads bear the burden?

Mr. ARMSTRONG: Yes.

Mr. HAZEN: Are the directors looking ahead to the time when peace will come again with a view to adopting methods or policies to improve the position of the railroads after the war? That may be rather a pretty broad question, but as this railroad has been going behind, as I understand it, at the rate of a million dollars a week previous to the war coming on. Now we are in a much better position. Have the directors been looking ahead to when peace comes again with a view to endeavouring to improve the situation that we had prior to the war coming on when you got this additional business on account of the war.

Mr. HUNGERFORD: I think the experience of the war in respect to the increase in traffic and the improved financial result clearly indicates that what is wrong is the lack of traffic and I do not see what the directors can do about that after the war as it will depend entirely upon the conditions that obtain at that time.

Mr. HAZEN: In all probability after this war we will experience a depression and be up against hard times. Are you looking forward to improving that situation at all? Have you considered it?

Mr. HUNGERFORD: My point is this: I do not see what can be done on the part of the directors or anybody else to anticipate that condition. We do not know what it will be and if the circumstances are such that the traffic is greatly reduced I do not know how the directors or anybody else can produce the traffic.

Mr. HAZEN: What is the present relationship between the C.N.R. and the C.P.R.? Are they co-operating now in the working of their respective roads?

Mr. HUNGERFORD: To a certain extent, yes. There always has been a very considerable measure of co-operation; there are a very large number of co-operative agreements in force between the two railroads at the present time. Many of them have been in existence for years.

Mr. HANSON: Would the chairman of the railroad give us some information on this co-operation and co-ordination? Is it based on a 50-50 split or mileage basis or what is it based on? Is it based on one horse and one rabbit, or something like that? We have discussed co-operation and co-ordination in this committee for a number of years and I should like an explanation from the chairman of the railroad as to how it is worked out and what it is based on.

Mr. ARMSTRONG: The co-operative projects which have been gone ahead with are first studied by a joint committee of the two railroads; that is, the technical officers of the two railroads. There is a Joint Co-operative Committee so-called, consisting of the engineering and accounting officers of the two roads, who study the projects. For example, let us take one of these line abandonments shown on page 7. They come to an agreement, that is, not a legal agreement, but they come to an agreement on a report and they recommend to their respective executives that a certain project be gone ahead with. All of these projects are on a 50-50 basis, that is, in dollars and cents as closely as they can be estimated.

Mr. HANSON: Are they based on mileage?

Mr. ARMSTRONG: The economy from the co-ordination project or co-operative project is divided equally between the railroads as closely as it can be done. For example, with regard to a line abandonment the items which would enter into the economy would be a reduction in maintenance expenses by abandoning one line and using the other. The economy due to less transportation expenses—they can cut out some train service, they can cut out some station services, and so on. Now, the salvage of the line is another item. The interest on the salvage from the line is taken into the economy. There may be a loss of revenue which they estimate, and for another thing there may be interest on the cost of connections or changes which they may have to put into force to get the project going. After that has been all added up the economy may be, say \$20,000 per year. The agreement is so arranged that each company gets \$10,000 per year.

Mr. HANSON: Has that worked out satisfactorily?

Mr. ARMSTRONG: I would say as far as the division of economy is concerned there is no kick by either company.

Mr. HANSON: Has there been any duplication of facilities? For instance, during war time a plant may be established on one line. Has there been a duplication of effort to get business there?

Mr. ARMSTRONG: I would say, generally speaking, no.

Mr. SANDERSON: The pool trains come into this picture, do they not? What about the pool trains; has that system worked out to the advantage of both railroads?

Mr. ARMSTRONG: At the time the pool was put in effect, sir—that was in 1933 and 1934—the economy was very close to \$1,000,000 per year to both companies. Of course that was a very splendid opportunity, because there was duplicate service between Montreal and Toronto, Montreal and Quebec, and Ottawa and Toronto, and it has worked out quite well. Since the traffic has picked up it has sometimes been necessary to add trains or sections of regular trains. Where the Canadian Pacific had one train and we had one train

it was cut to one—in other words, it was cut in half, at the time the pool agreement went into effect. Now we sometimes have three or four sections of those trains.

Mr. SANDERSON: From Ottawa to Toronto, for instance?

Mr. ARMSTRONG: Yes, and from Montreal to Toronto, too.

Mr. SANDERSON: And Montreal to Toronto.

Mr. SHAW: Take the case where the C.P.R. has abandoned a line running parallel to the C.N.R. I have in mind the Red Deer, Alberta, to Rocky Mountain House, serving a coal mining area. Is the C.P.R. likely to use the C.N.R. road and run their traffic over that road?

Mr. ARMSTRONG: In that particular case the C.P.R. does not intend to take any running rights over the Canadian National. I should have said there are two types of abandonment, one where a line is abandoned and the railroad which abandons it takes running rights over the parallel line. The second case is where the railroad abandons and completely gets out of the territory; leaves the territory to the other railroad. The line from Red Deer to Rocky Mountain House is the second case. The Canadian Pacific would withdraw from that territory entirely.

Mr. MAYBANK: In so far as the other case is concerned it is a matter of agreement or else it is a matter of the judgment of the transport board or both bodies; is not that right?

Mr. ARMSTRONG: That is right. The railroads get together and say we can make an economy. They go to the board and say, "Have we permission to abandon in the public interest?" and the board balances public interest against the economy and gives its judgment.

Mr. MAYBANK: The soliciting department of the railroad or the statistical department of the railroad or some other department have at all times, I suppose, tried to have a fairly good idea of the amount of traffic in the country and where it is to come from. They are always watching these possibilities. Can you say how many miles of passenger traffic there have been due to the movement of troops? Have you any such information?

Mr. ARMSTRONG: No, sir, we have not any here.

Mr. MAYBANK: What I am getting at exactly is simply this:—I do not care whether it is measured that way or any other way—what I am getting at is this: Are you getting your share of that section of the government business or is the C.P.R. getting the lion's share of it?

Mr. ARMSTRONG: I would say we want to get as much as we possibly can.

Mr. MAYBANK: I know that is probably correct but it is not answering the question. You know how much there has been or you can find out how much there has been. Now, what I want to know is whether the C.P.R. in its endeavour to get business is beating you out who, I believe, rely a little bit more particularly in a case like this on being given the business.

Mr. HUNGERFORD: That is a very difficult question to answer, Mr. Maybank, because of the many variable factors in connection with it. I do not think it is possible to give you a definite answer in regard to that.

Mr. MAYBANK: I think so. I thought we could not be quite definite about it when I asked the question, but I want to go as near as possible to definiteness about it, because I want to say frankly there is a very great deal of complaint about that sort of thing. Sometimes I am able to run it down and find it to be ill founded. Now, when a complaint is ill founded I should like to see it. But if there is a valid complaint here then we should like to try to discover some way of correcting it. The simple question is—it could be put in a variety of ways—is the C.N.R. getting a fair share of that type of business.

Mr. HUNGERFORD: Are you speaking of government business particularly?

Mr. MAYBANK: I am speaking of troop movements, and I wanted to follow that from there to the other types of traffic that are resulting from the war and also the location of factories.

Mr. HUNGERFORD: We can easily determine the amount of money that was paid us by the government for troop movements in a given time. Whether we could get the information as to how much was paid to the Canadian Pacific, I do not know.

Mr. ARMSTRONG: Speaking of the figures from memory, during the first eighteen months of the war there was about five and one quarter millions of gross revenue on troops—

Mr. MAYBANK: I am sorry, I did not catch that.

Mr. ARMSTRONG: There was about five and one quarter millions gross revenue paid by the government on the movement of army, navy and air force.

Mr. MAYBANK: Five and a quarter million paid to you?

Mr. ARMSTRONG:—No; paid to—

Mr. MAYBANK: Paid by the government wholly?

Mr. ARMSTRONG: Right.

Mr. MAYBANK: Paid for armed force movements?

Mr. ARMSTRONG: Of that there was approximately two million, six hundred thousand paid to the Canadian Pacific and about two million six paid to the Canadian National.

Mr. MAYBANK: Two million and six?

Mr. ARMSTRONG: Yes. Those are payments to the railways.

Mr. MAYBANK: You used the same figure both times—two million and six?

Mr. ARMSTRONG: Right. It is practically fifty-fifty. The government pays that money to the railway which originates the movement; that is, if they start, for instance, on the C.P.R. and end on the Canadian National, on a movement from Petawawa to Halifax, they pay that to the Canadian Pacific. Then there is an inter-company payment.

Mr. MAYBANK: Yes. They pay you your mileage share. It would be mileage, I suppose?

Mr. ARMSTRONG: Well, it is a matter of the division of the fare on the usual tariff basis. When the adjustment is made the Canadian National has slightly more than the Canadian Pacific.

Mr. MAYBANK: They have paid you a little bit more than they paid the C.P.R.?

Mr. ARMSTRONG: Right. I have not got the exact figures.

Mr. HANSON: We had a report tabled in the House of Commons a short time ago showing that the Canadian Pacific had received over one million dollars more than the Canadian National for transporting troops since the war began. The mileage of the Canadian National, as I understand it, is more than the mileage of the Canadian Pacific. If the C.P.R. received so much more than the C.N.R., according to the report that was tabled I would like to know upon what the fifty-fifty co-operation is based. If it is based on mileage, we should have the benefit of the doubt. Mr. Armstrong said it was based on the originating point, and he cited Petawawa as an example. If it originated at a point like Winnipeg, or practically any of the bigger centres in Canada where the two lines are running, I should like to have the low-down on how it is arrived at; whether it is based on mileage or based, as I said before, on a horse and rabbit plan. There must be a good basis for it.

Mr. ARMSTRONG: The basis of division is not defined by the railways; it is up to the people who route the traffic.

Mr. HANSON: You do not mean to say that the Canadian Pacific is more alert in trying to get traffic than the Canadian National?

Mr. ARMSTRONG: I doubt that.

Mr. HANSON: So do I. I think the Canadian National is just as alert in trying to get business as any other lines, but whether they are handicapped in any way is what the committee would like to know.

The CHAIRMAN: I think these men want to know whether the Canadian National is getting a raw deal.

Mr. MAYBANK: That is it. I have no grievance at all against the C.P.R.; I just want to see that this railroad gets a fair shake all the time. I know that you cannot answer some of these questions directly but you might start us off and we might get another answer some place else.

Mr. ARMSTRONG: I have the figures here, if you would like to put them in the record.

Mr. MAYBANK: Yes.

Mr. ARMSTRONG: For the first eighteen months of the war, taking September, 1939, and February, 1941, inclusive, this is the report that was filed in the house, and the figures are as follows:

The Canadian National \$2,573,000.

The Canadian Pacific \$2,628,000. That is, as I say, before the adjustment is made for inner-line account. I would say it is slightly in favour of the Canadian National. It is a very difficult thing to get because this pool that we speak of comes into it; that is, the division of all traffic that goes through the pool. We get fifty-fifty, but the question is who actually originated it and brought it into the pool.

Mr. MAYBANK: Where they start off with more in the way of payments than you but you end up with more than they, the first thing that teaches us is that more traffic originates with them?

Mr. ARMSTRONG: I would say that would be correct. That would be a fair assumption, anyway. We handle these troop movements for overseas east of Quebec.

Mr. MAYBANK: East of Quebec?

Mr. ARMSTRONG: East of Quebec city.

Mr. HUNGERFORD: If a movement originates on the Canadian National Railways, they take them through; if they originate on the Canadian Pacific they can only take them as far east as Quebec and turn them over to us at that point.

Mr. MAYBANK: Yes. That would mean, then, would it not, that in view of the fact that you get all the business east of Quebec, because you have to get it—

Mr. ARMSTRONG: That is only on the overseas traffic, of course, which is not the biggest proportion.

Mr. MAYBANK: Only on the overseas traffic?

Mr. ARMSTRONG: Only on these troops which move east of Quebec.

Mr. MAYBANK: Yes. I said in view of the fact that you get all of that which is east of Quebec—which you really have to get—then the fact is that every place else in Canada where there are two lines the business must be first of all in a greater number of cases given to the C.P.R.? That is right, is it not?

Mr. HUNGERFORD: There are the figures.

Mr. ARMSTRONG: The figures would indicate that, yes, definitely.

Mr. MAYBANK: There is not any other factor that might be mentioned that would vitiate that conclusion being drawn?

Mr. ARMSTRONG: None that I know of.

Mr. MAYBANK: What is the ratio between the two on mileage?

Mr. ARMSTRONG: About fifty-six—forty-four.

Mr. NICHOLSON: Fifty-six C.N. and forty-four C.P.?

Mr. ARMSTRONG: Yes.

Mr. MAYBANK: West of Quebec, what would you say? What would you cut off and what ratio would you then give?

Mr. ARMSTRONG: I do not know definitely what you would cut off. You would cut off more on our line.

Mr. MAYBANK: What did you say the ratio was?

Mr. ARMSTRONG: About fifty-six—forty-four, I believe.

The CHAIRMAN: Fifty-six is C.N.R.

Mr. MAYBANK: Are you getting that now?

Mr. ARMSTRONG: I am just checking the figures. The main line mileage splits 21,799 for the C.N.R. as compared with 16,829 for the C.P.R. 56 per cent is C.N. and 44 per cent C.P. That is in Canada.

Mr. MAYBANK: In Canada?

Mr. ARMSTRONG: Yes.

Mr. MAYBANK: You would not want to mix up any of the other lines in this discussion. That is the whole?

Mr. ARMSTRONG: That is the main line mileage, meaning the miles of road.

Mr. MAYBANK: That means any road which is what other people would call a train road? You are excluding all manner of side tracks, but you do not mean to say that is just east to west main lines?

Mr. ARMSTRONG: That is main lines exclusive of yards, terminals, siding, etc.

Mr. MAYBANK: Now, could you give us the same thing east of Quebec, not now, perhaps, but later?

Mr. ARMSTRONG: We could, I think, make a division of it, yes. That is, east of Quebec city?

Mr. MAYBANK: Yes.

Mr. ARMSTRONG: We can do that.

Mr. MAYBANK: What about the freight traffic connected with the war?

Mr. ARMSTRONG: We have not available any figures that I know of that would indicate what proportion of the business is being handled by the Canadian National or the Canadian Pacific.

Mr. ROSS: Have you the freight earnings of the CPR for 1939?

Mr. ARMSTRONG: Yes.

The CHAIRMAN: Mr. Hungerford says he could have Mr. Fraser here in the morning to discuss this matter.

Mr. HUNGERFORD: He is the Vice-president of traffic and he is in the city and might remain here all night. I will make an effort to get him up here in the morning.

Mr. MAYBANK: That is quite satisfactory.

The CHAIRMAN: This is the one occasion in the year when you have the opportunity to have a good, healthy discussion of this matter, and it is not in my mind to curtail it, but still we do not want to waste any time.

Mr. HANSON: We are not wasting any time, Mr. Chairman.

Mr. EMMERSON: There is an entry here giving the personnel of the C.N.R. which amounts to about 5 per cent, roughly speaking, over the whole system. Have you any figures that would show the increase by regions?

Mr. ARMSTRONG: The increase by regions of what figures? I am afraid I did not catch your question.

Mr. EMMERSON: On page 5 you have shown the employees as 4,702, bringing the total up to 82,831. That is roughly about 5 per cent for the whole system. Have you any figures showing the increase by regions?

Mr. ARMSTRONG: We have not got them here, sir, but they could be supplied.

Mr. NICHOLSON: Could you also supply the profit according to regions, so that we may see where the increased business is?

Mr. ARMSTRONG: I am expressing my own opinion; that does not mean very much. There are arbitrary divisions made of revenues and expenses between regions; for operating purposes the railway gets out certain figures. As to whether a region is profitable or not, I do not think you will find that from those figures.

Mr. MAYBANK: Could you give the amount of troop traffic and the amount you got, originating west of Quebec?

Mr. ARMSTRONG: May I say, first of all, that the figures, which I read, were supplied by the Department of National Defence, not by the railways. I think the Department of National Defence would be in a much better position to give them.

Mr. MAYBANK: They could supply the total?

Mr. ARMSTRONG: I would think so.

Mr. MAYBANK: You could only give the amount that you get which originated west of Quebec. You could give that, could you not?

Mr. ARMSTRONG: When you say originating west of Quebec and went all of the way through, that is, the total revenue on everything originating west of Quebec. Is that your point?

Mr. MAYBANK: Not only that originated on your line but which originated on other lines west of Quebec?

Mr. ARMSTRONG: That could only come from the Department of National Defence. These figures which I quoted are in the return filed in the House of Commons.

Mr. MAYBANK: They could only give the total; but you could give that which you got, could you not?

Mr. ARMSTRONG: Yes, I think so. My question was, do you want the earnings we get on all traffic originating west of Quebec carried right through to its destination?

Mr. MAYBANK: Yes.

Mr. ARMSTRONG: That could be obtained.

The CHAIRMAN: All traffic?

Mr. MAYBANK: Well, all this kind of traffic.

The CHAIRMAN: I know. You mean military traffic?

Mr. MAYBANK: Yes; and of course this is only passenger traffic. This is only troop traffic or armed forces.

Mr. POULIOT: I should just like to ask a question here, Mr. Armstrong. When you made that percentage division of passenger traffic for the Department of National Defence between both railways, did you take into account the passenger traffic which is given by the department to the Canadian Pacific Steamships?

Mr. ARMSTRONG: No, sir.

Mr. POULIOT: This is a different share that does not enter into that division of traffic? You laid it aside and you considered only both railways?

Mr. ARMSTRONG: Your question is that this is only railway traffic, not steamship traffic?

Mr. POULIOT: Yes, to a certain point. But I want to know if in the separation of shares between both railways, the traffic that is given by the Department of National Defence to the C.P. Steamships is taken into account?

Mr. ARMSTRONG: I think you would have to ask the Department of National Defence. But I understand that this is only railway traffic.

Mr. POULIOT: Those are not your figures. Those are figures of the Department of National Defence?

Mr. ARMSTRONG: Yes.

Mr. POULIOT: Which you cannot check definitely?

Mr. ARMSTRONG: We have checked the Canadian National and it is approximately correct.

Mr. POULIOT: Yes, but you have not the other side of the picture.

Mr. ARMSTRONG: We have not the other side of the picture.

Mr. MAYBANK: Was all of this which you have just been telling us about this movement of the armed forces strictly an eastern movement, or was it anywhere?

Mr. ARMSTRONG: That was anywhere in Canada.

Mr. DONNELLY: You were asked a while ago, I think, for the gross freight on the C.P.R.

Mr. ARMSTRONG: Yes.

Mr. DONNELLY: It is found on page 22 of the C.P.R. report.

Mr. ROSS: The 1939 figures I checked over.

Mr. DONNELLY: This is 1940, compared with our 1940. I think it is well to compare those.

Mr. ROSS: Yes.

Mr. ARMSTRONG: The C.P.R. revenues for freight, according to their report, were in 1940 \$134,659,475.

Mr. ROSS: Gross earnings.

Mr. DONNELLY: Is that page 22?

Mr. ARMSTRONG: Page 36.

Mr. DONNELLY: Of the C.P.R. report?

Mr. ARMSTRONG: Page 36 of the Canadian Pacific report.

Mr. DONNELLY: When I got the Canadian Pacific, I was on page 22.

Mr. ROSS: There is a difference of a million dollars there.

Mr. ARMSTRONG: They have two different figures there. I do not know what the difference is.

Mr. MAYBANK: Yes; 134 and 135.

Mr. ROSS: Can we take the 1939 figures then?

Mr. ARMSTRONG: We cannot tell you what the difference is, but there are figures shown on page 36 of the Canadian Pacific report, comparing 1939 and 1940 freight revenues; 1940 is shown as \$134,659,475, and for 1939, \$119,347,237.

Mr. MAYBANK: Nearly a 13 per cent increase.

Mr. DONNELLY: On page 22 they give you what their revenue was for freight, passenger, mail and express.

Mr. MAYBANK: The same wording exactly. I think the word "gross" is used in it somewhere.

The CHAIRMAN: Well, gentlemen, we are really considering the report of the Canadian National.

Mr. NICHOLSON: There is one other question I should like to ask before you pass on, Mr. Chairman, and it is in connection with freight rates on scrap metal. As a result of appeals made by the National War Services a great many people have piled scrap iron along the sidings in western Canada. The reason it is not moving is that the National War Services say they cannot get reduced freight rates, that freight rates are so high that this scrap is practically worthless as far as the local shipping points are concerned. I wonder if there is any possibility of having this scrap moved to where it can be used? What is the policy in connection with reducing the freight rates for purposes of this sort?

Mr. MAYBANK: Out around Winnipeg you did carry some of that scrap iron on an O.C.S. basis for a while, did you not?

Mr. HUNGERFORD: We gather it together at certain points; then dispose of it from there.

Mr. MAYBANK: I beg your pardon?

Mr. HUNGERFORD: We gather the scrap up and move it in, as O.C.S. material, to certain specified points and then we sell the scrap from those points.

Mr. MAYBANK: You mean that is what you do with your own?

Mr. VAUGHAN: The steel controller has set the price at all important centres for scrap, and we cannot get the gross price at those centres and we have to deliver this and absorb the freight, whatever it may be, to those points.

Mr. MAYBANK: You are speaking of your scrap?

Mr. VAUGHAN: Yes. But it has been set on most other classes of scrap too.

Mr. MAYBANK: But my question was that I think you did make an arrangement with scrap dealers on an O.C.S. basis or an O.C.S. basis plus 10 per cent or something like that out around Winnipeg, and it ran for a while.

Mr. VAUGHAN: I do not think we ever made any such arrangement.

Mr. MAYBANK: No? I was told that by a scrap iron dealer at the time they met at some sort of convention here a little while ago.

Mr. VAUGHAN: That was not true. We sell our scrap at the delivered price.

Mr. NICHOLSON: I have been receiving a great deal of correspondence from people in the west. They are annoyed at seeing scrap piled up there. It is rather unsightly. The National War Services blame the railways for refusing to budge on the rates. What is the policy? What are prospects of this scrap moving?

Mr. VAUGHAN: I think that has been gone into fully with the freight traffic department of the various railways and they have adopted freight rates which they think are fair under the circumstances.

Mr. ARMSTRONG: It is really a matter for the railway association—that is, the railways together—to do something about it.

Mr. NICHOLSON: The National War Services said they would advise me when reduced rates were available. I have not got any information yet.

Mr. POULIOT: Mr. Armstrong, do you have for the freight more definite statistics than for passenger traffic of the army?

Mr. ARMSTRONG: No, sir. We have not. We have not got anything comparable, for example, with this return which was made in the House of Commons.

Mr. POULIOT: But do you have it from the Department of Munitions and Supply?

Mr. ARMSTRONG: No, sir. That is a statement of what we got and the Canadian Pacific got? Is that your point?

Mr. POULIOT: Yes.

Mr. ARMSTRONG: No, sir. We get no such statement that I know of.

Mr. POULIOT: But it is easier to check freight traffic than to check passenger traffic, is it not?

Mr. ARMSTRONG: I do not know that it would be, no sir. With freight traffic, you would have to check all bills; every bill that covered a shipment would have to be abstracted to find out where it was coming from and going to.

Mr. POULIOT: How do you manage to try to get your share of the freight?

Mr. ARMSTRONG: Well—

Mr. POULIOT: Is that a secret?

Mr. ARMSTRONG: No. I think that is a question which Mr. Hungerford suggested Mr. Fraser might well answer. Mr. Fraser is vice-president of traffic, and that is within his province.

Mr. JACKMAN: Would it throw any light on this question, inasmuch as most of the increase is stimulated directly or indirectly by war traffic, if you take the increase in operating revenues of the Canadian National and compare it with the 1939 total; and also take the gross earnings, which I believe is a comparable item, for the C.P.R. with operating expenses in the C.N.R. and make a comparison? I have just made one here. It would appear that the gross earnings of the C.P.R. went up 13 per cent and the gross earnings of the C.N.R. went up 21 per cent. But it would seem that, inasmuch as the increase is due to more business, the C.N.R. has certainly done infinitely better than the C.P.R., it has been getting more business. Are those comparable figures that I have been using?

Mr. ARMSTRONG: That is a matter for some argument as to whether they are or are not comparable.

Mr. JACKMAN: What is that?

Mr. ARMSTRONG: I say that is a matter of some argument.

Mr. ROSS: Where do you get those figures?

Mr. JACKMAN: The C.N.R. went up \$43,407,000 on the 1939 basis of \$203,820,000, which is 21 per cent. The C.P.R. went up \$19,684,000 on the 1939 basis of \$151,280,000, which is only a 13 per cent increase as against 21 per cent for the C.N.R. Are those reasonable and comparable figures?

Mr. ARMSTRONG: First of all, Mr. Jackman, the figures for the Canadian National are for the system, including the States.

Mr. JACKMAN: I realize that.

Mr. ARMSTRONG: And the Canadian Pacific figures, of course, are for Canada.

Mr. JACKMAN: That is Canada only?

Mr. ARMSTRONG: Canada only, because the only lines they have in the States are running through Maine.

Mr. JACKMAN: Does that include steamships and hotels?

Mr. ARMSTRONG: Not in gross revenues.

Mr. JACKMAN: Not in gross revenues?

Mr. ARMSTRONG: There are several differences between the way the accounting for the Canadian Pacific is done and our own, as to what is shown in revenues and what is shown in expenses.

Mr. JACKMAN: It would not appear that you are lagging very much?

Mr. ARMSTRONG: No. You may find however in previous years that the ratios were the other way.

Mr. JACKMAN: Yes.

Mr. ARMSTRONG: Then in 1941 you will find that the Canadian Pacific is a little better than we are in increases.

Mr. JACKMAN: Yes.

Mr. ARMSTRONG: It fluctuates backwards and forwards, one year with another.

The CHAIRMAN: Can we leave this matter here, gentlemen, until Mr. Fraser appears tomorrow, when he will probably be able to give more definite information, and proceed with the report?

Mr. MAYBANK: It is agreeable to me.

The CHAIRMAN: Suppose we move on to page 10.

Mr. POULIOT: But we can go back?

The CHAIRMAN: Yes, we can go back.

Mr. JACKMAN: On that point raised by Mr. Hazen in regard to staff; I note there was an increase of 4,702 employees. Can anything worth while in the way of reducing what you might call surplus employees be made at this time? I have in mind the fact that there are competing services, and even looking at the two railways together there is overstaffing of the railways but perhaps no overstaffing as to either one of the railways considered by itself; and you have added 4,702 employees during the last year; are those mostly young men you have taken on?

Mr. HUNGERFORD: If I understand your question correctly; we only employ the bare number of employees necessary to carry on the work at any given time.

Mr. POULIOT: Well, Mr. Armstrong, isn't it true that in many cases men are working overtime or time and a half?

Mr. ARMSTRONG: There are some, yes.

Mr. POULIOT: And do you not have some trouble with the Brotherhoods who want their own men to work overtime to the detriment of other people who should be working there? You do not consider that from that angle?

Mr. HUNGERFORD: There are no men working overtime unless the circumstances make it necessary at that particular time and place.

Mr. POULIOT: Well, I know very well, Mr. Hungerford, that it happens at times that the Brotherhoods oppose the employment of new men just to give their own members an opportunity to work overtime, and I find it unfair, and I know it; and, of course, there should surely be something done by the management to correct it, to see that the man who has two days work is checked so that the other one who might be starving can have a chance. I do not think it is fair at all; and of course it does not come to the notice of the management, it is done by some people underneath who try to pull the strings in order to have more influence and serve their own friends. It is not fair. I know the Brotherhoods are very powerful and there must be a check at times.

Mr. MAYBANK: It is not a fact on the contrary that in general all of the Brotherhoods voluntarily put themselves on short time in order to employ as many more men as could be given work; has not that been the system in vogue for a number of years?

Mr. HUNGERFORD: That was done during the period of the depression.

Mr. MAYBANK: And it lasted until only a short time ago. For example, all the running trades voluntarily put themselves on certain mileage limits that they could not exceed—that was only changed a short time ago, wasn't it?

Mr. POULIOT: Some Brotherhoods do that, not all.

Mr. MAYBANK: Not all, perhaps, although it is the general rule throughout the country; I do not know a particular place.

The CHAIRMAN: Yes, and all the shop men were taking a four-day week in order to spread employment around.

Mr. POULIOT: Perhaps that is done, but it is not always done.

The CHAIRMAN: I think it will be found that overtime only goes into effect when the company has not got the men to do the necessary work and the job is required to be done within a certain time, so the men capable of doing it are called upon to do it.

Mr. POULIOT: That is your view.

The CHAIRMAN: No, I know that.

Mr. POULIOT: That may be all right in your constituency but it is not in mine; with all due respect to the chair.

Mr. JACKMAN: The point I was trying to arrive at was in any previous talk in years gone by about the co-ordination of any part of the service we heard a great deal about man-power and the economies to be made by amalgamation, yet at the present time in the face of the present difficulties we find it has been necessary to take on a substantial number of men. Is it not possible to co-ordinate any of the services; express, telegraphs, or things of that kind, particularly when the men are needed elsewhere?

Mr. HUNGERFORD: I think it would be a great mistake to disturb any organization at the present time under war conditions.

Mr. JACKMAN: That is a rather conclusive answer; and I presume that applies also to the telegraph and express divisions of your business?

Mr. HUNGERFORD: The telegraph facilities of both companies as far as I know are almost fully occupied at the present time.

Mr. JACKMAN: And neither one could take over the work of the other without taking on virtually all the personnel.

Mr. HUNGERFORD: I do not know whether that could be done in peacetime or not, it may be debatable, but it certainly should not be done in wartime when the load is increasing every day.

Mr. JACKMAN: You are not then, in view of the large volume of business which is going through at the present time, going to try to reach any solution of Canada's railway problem?

Mr. HUNGERFORD: I do not think there is any short-cut of that kind possible.

Mr. JACKMAN: At the present time.

The CHAIRMAN: I think we will proceed with page 10, gentlemen; Mr. Armstrong.

Mr. ARMSTRONG:

CONSOLIDATED BALANCE SHEET

ASSETS		
Investments:		
Investment in Road and Equipment..	\$1,874,172,774 14	
Improvements on Leased Property....	4,389,124 27	
Miscellaneous Physical Property.....	62,361,526 50	
		\$1,940,923,424 91
Sinking Funds:		
System Securities at par.....	\$ 389,304 13	
Other Assets at cost.....	275,406 92	
		664,711 05
Deposits in lieu of Mortgaged Property		
Sold:		
System Securities at par.....	\$ 1,829,500 00	
Other Assets at cost.....	2,591,613 83	
		4,421,113 83
Investments in Affiliated Companies.....		38,554,956 14
Other Investments:		
System Securities at par.....	\$ 80,000 00	
Other Assets at cost.....	697,197 27	
		777,197 27
		\$1,985,341,403 20
Current Assets:		
Cash	\$ 9,768,880 06	
Special Deposits.....	7,494,365 74	
Bills Receivable.....	100,000 00	
Traffic and Car-Service Balances—Debit.....	1,356,928 42	
Net Balances Receivable from Agents and Conductors..	8,691,734 50	
Miscellaneous Accounts Receivable... \$	8,785,332 75	
Dominion Government—Balance due under 1940 Budget.....	287,623 95	
		9,072,956 70
Material and Supplies.....	32,602,939 42	
Interest and Dividends Receivable.....	266,051 58	
Rents Receivable.....	120,924 28	
Other Current Assets.....	1,418,871 35	
		70,893,652 05
Deferred Assets:		
Working Fund Advances.....	\$ 198,838 78	
C.N.R. Insurance Fund:		
System Securities at par.....	\$ 7,778,183 52	
Other Assets at cost.....	4,604,645 90	
		12,382,829 42
Other Funds.....	14,506 25	
Other Deferred Assets.....	4,859,320 62	
		17,455,495 07
Unadjusted Debits:		
Rents and Insurance Premiums paid in advance.....	\$ 226,170 71	
Discount on Capital Stock.....	189,500 00	
Discount on Funded Debt.....	11,255,697 62	
Other Unadjusted Debits.....	2,855,216 81	
		14,526,585 14
		\$2,088,217,135 46

AT 31st DECEMBER, 1940.

LIABILITIES

Stocks:

Capital Stocks of Subsidiary Companies owned by Public	\$ 4,566,600 00
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Long Term Debt:

Funded Debt Unmatured	1,199,816,334 09
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Dominion of Canada (Accounts treated as assets in Public Accounts of Canada):

Loans	\$113,882,334 43
Canadian Government Railways—Working Capital....	16,771,980 54
	<hr/> 130,654,314 97

Current Liabilities:

Traffic and Car-Service Balances—Credit	\$ 4,362,915 01
Audited Accounts and Wages Payable	10,418,008 04
Miscellaneous Accounts Payable	3,163,352 51
Interest Matured Unpaid	8,235,472 04
Unmatured Interest Accrued	9,324,714 20
Unmatured Rents Accrued	410,191 07
Accrued Tax Liability	1,606,240 60
Other Current Liabilities	1,915,697 88
	<hr/> 39,436,591 35
Deferred Liabilities	8,405,149 94

Unadjusted Credits and Reserves:

C.N.R. Insurance Reserve	\$ 12,382,829 42
Accrued Depreciation	18,600,790 50
Other Unadjusted Credits and Reserves	4,895,335 88
	<hr/> 35,878,955 80

Dominion Government—Proprietor's Equity (See Note)
Represented by:—

1,000,000 shares of no par value capital stock of Canadian National Railway Company issued in exchange for the residual value of Canadian Northern capital stock	\$ 18,000,000 00
5,000,000 shares of no par value capital stock issued by Securities Trust to the Government in consideration for the transfer of securities, advances, claims for unpaid interest and collateral securities	265,706,605 62
Dominion Government Capital Expenditures for Canadian Government Rys	385,752,583 69
	<hr/> 669,459,189 31

Contingent Liabilities:

For major contingent liabilities, including pension plans, see page 21.

\$2,088,217,135 46

NOTE:—The Proprietor's Equity is included in the net debt of Canada and is disclosed in the historical record of Government assistance to railways as shown in the Public Accounts of Canada in accordance with The Canadian National Railways Capital Revision Act, 1937.

T. H. COOPER,
Comptroller.

The CHAIRMAN: All right, gentlemen, proceed. Is there any debate on this sheet or shall we go on?

Mr. HAZEN: Under the heading "assets and deposits in lieu of mortgage property sold, system securities at par"; might that be explained. I do not understand that item?

Mr. COOPER: Under some of the trust deeds securing the bonds of the company, it is a requirement that if any of the mortgaged property is sold the proceeds from the sale should be deposited with the trustee and held for the ultimate redemption of the issue.

Mr. HAZEN: What bonds are they?

Mr. COOPER: There are quite a number of bonds. I could give you the different issues involved in that item.

Mr. HAZEN: Are they C.N.R.?

Mr. COOPER: They are principally bonds of the Canadian Northern and the Grand Trunk Pacific Railway companies.

Mr. POULIOT: Are they held by the government?

Mr. COOPER: They are assets of the railway in the hands of the trustees, under the various mortgages.

Mr. POULIOT: To speak in a broad way, what amount is held by the government and what amount by individuals including companies?

Mr. COOPER: Not any of that amount is held by the government.

Mr. POULIOT: I mean what amount of the bonds of the Canadian National system is held by the Dominion Government and by other persons using "person" in the legal sense?

Mr. COOPER: I doubt whether any bonds of the Canadian National system are held by the government of Canada.

Mr. POULIOT: They are held by private individuals, by persons?

Mr. COOPER: By the public.

Mr. POULIOT: Yes, by the public.

Mr. HAZEN: How do those bonds come to be in your possession? They have been issued to somebody else; how do you come to sell them?

Mr. COOPER: These are not bonds, sir; these are deposits.

Mr. POULIOT: Mr. Hazen is speaking of deposits and I am speaking of bonds.

Mr. COOPER: The question arose on this particular item, deposits in lieu of mortgage property sold. Now, as I explained, if you sell property subject to mortgage the proceeds of the sale are deposited with the trustee and they may be invested by the trustees in securities, and they are so invested.

Mr. POULIOT: Now, Mr. Cooper, I would like to come to the crucial point of the financial problem of the Canadian National Railways: it is the accumulation of deficits for which the railway is paying some interest or is charged some interest by the government, and of course this year we have \$16,000,000 deficit for which there is an item in the estimates.

Mr. COOPER: Yes.

Mr. POULIOT: And there was a deficit each year.

Mr. COOPER: Yes.

Mr. POULIOT: The railway is supposed to meet the interest on that to the government is it not?

Mr. COOPER: No, sir. In 1932 the Minister of Finance, Mr. Rhodes, changed government policy with respect to payment of deficits of the Canadian National Railways. Previously the government had advanced as loans to the railway whatever sums were needed by the railway to meet operating deficits. From

1932, however, sums have been voted by parliament without any strings attached or without any interest charged against the railway, and under the Capital Revision Act of 1936 any loans made prior to 1932 which were for deficit purposes were removed from the railway company's balance sheet through the medium of the Securities Trust. So that in the liabilities of the railway today there are no obligations representing the funding of deficits, and I do not think we should say that in our interest charges are any amounts representing sums borrowed for deficit; the interest in the railway accounts today is interest on the moneys invested in railway property—

Mr. POULIOT: Invested by the public.

Mr. COOPER: Invested in railway property.

Mr. POULIOT: Yes.

Mr. MAYBANK: Not the Canadian National, but stuff you took over—investment by the public in railway property before they were ever Canadian National at all.

Mr. JACKMAN: Privately owned lines.

Mr. POULIOT: Now, the amount that is in the estimates this year is like a subsidy to help the Canadian National make both ends meet.

Mr. COOPER: Yes, if subsidy is the right word. It is the contribution by the Dominion to pay the deficit of the Canadian National Railways.

Mr. POULIOT: It is just a help, call it a subsidy or a contribution, it is the same thing, and it is not charged to you.

Mr. COOPER: No, it is given to us.

Mr. POULIOT: That is why we have to be careful to scrutinize these things carefully.

Mr. COOPER: Certainly. We hope next year there will not be any such figure.

Mr. ROSS: On page 11 under "Liabilities" and going over to page 22 I see there a schedule of companies composing 102 in the 1939 report and comprising \$282 million, and in the 1940 report the companies have been reduced by 6 to 96 but still it shows \$283 million. Could that be explained? There are six less companies and a million more dollars?

Mr. COOPER: The amount in 1940 is less than in 1939. The total of capital stock issues in 1939 was \$214 million; at the end of 1940 the sum is \$204 million. There has been a reduction of six companies and about \$10 million in the total stocks.

Mr. ROSS: Yes, that is correct.

Mr. JACKMAN: There is this item, accrued depreciation \$18 million. That is the item you set up since last year on rolling stocks?

Mr. COOPER: No, as we said in the report we had been accruing depreciation on United States lines with respect to rolling stock for a number of years, and at the end of 1939 we had a reserve of \$16,353,000.

Mr. JACKMAN: That you carried forward.

Mr. COOPER: Sixteen million dollars.

Mr. JACKMAN: You only increased it by two million of dollars last year.

Mr. COOPER: Yes, but the increase represents in the first place a credit of some \$11,600,000, less charges against the reserve of about \$9,000,000. Within the year we credited to reserve by charges to expense \$11,600,000 and we charged to reserve with respect to property retired the sum of \$9,000,000, so the reserve increased some \$2,600,000, and the \$16 million which we had at the beginning of the year plus the increase during the year brings out the figure of \$18 million at the end of the year.

Mr. JACKMAN: I understood last year we were following the same principle in regard to depreciation on rolling stock as the I.C.C. formulated by the American railroads, but we are only now adopting American practice in regard to rolling stock in Canada?

Mr. COOPER: That is so.

Mr. POULIOT: Do you know what puzzles me most in this balance sheet? It is not the \$2 billion \$800 million, it is the 46 cents on each side of the sheet.

The CHAIRMAN: Page 12.

Mr. JACKMAN: In regard to the sinking fund on this rolling stock, some of the money that you asked parliament to appropriate this year is for rolling stock, is it not?

Mr. COOPER: Yes.

Mr. JACKMAN: In previous years that was part of the parliamentary appropriation, but under the regular sinking fund plan. Have you paid the money back to the government each year, the percentage which is proper under the agreement, or what happened to that exactly?

Mr. COOPER: In respect to—?

Mr. JACKMAN: Rolling stock that you purchased under the amortization plan.

Mr. COOPER: Are you speaking of the particular issues which were financed in the first place by the government?

Mr. JACKMAN: Yes.

Mr. COOPER: We did in 1941 repay to the government the annual instalment due in that year. All our equipment issues are on a serial basis, not a sinking fund basis; we repay, generally over a period of 15 years, 1/15th per annum of the total issue.

Mr. JACKMAN: And the experience has been with the money under all these issues which bore the government endorsement when the money was raised that the proper percentage each year was paid directly to the government and you have maintained those payments under the sinking fund plan in connection with the rolling stocks and equipment?

Mr. COOPER: There were only two cases where the equipment was financed by the government, one was in 1936, I think, and one was last year. Generally our equipment issues are issues to the public and we repay each year the annual instalment due.

Mr. JACKMAN: But the two times that the government has financed the money directly you have made the payments directly to the government?

Mr. COOPER: On the issue made in 1936 we have met all instalments as they fell due; on the issue made in 1940 I do not think an instalment was called for in that year. The first instalment will appear in 1941.

The CHAIRMAN: Page 12.

Mr. ARMSTRONG:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

YEAR ENDED 31st DECEMBER, 1940

Debits:

Debit Balance transferred from Income.....	\$ 15,384,569 66
Debits from Retired Road and Equipment.....	1,682,855 06
Miscellaneous Debits.....	126,418 23
	<hr/>
	\$ 17,193,842 95

Credits:

Credits from Retired Road and Equipment.....	\$ 14,138 20
Miscellaneous Credits.....	214,660 57
	<hr/>
	\$ 228,798 77

Cash Deficit, Contributed by Government.....	\$ 16,965,044 18
Capital gain on redemption of G.T.R. 4% Perpetual Debenture Stock.....	\$5,503,500 00
Line abandonments and other capital losses (Details on page 18).....	3,809,320 80
	<hr/>
Net Gain credited to Proprietor's Equity.....	1,694,179 20
	<hr/>
	\$ 15,270,864 98

Mr. POULIOT: Before you go farther, there is something about the Grand Trunk debenture stock, and I have seen something somewhere about the repatriation of the Grand Trunk Railway stock; on what page is that?

Mr. COOPER: On page 6.

Mr. POULIOT: Yes, I see it now. Well, now, on the sixth line there is mentioned that the vesting price was £103 17s. 4d. per 100 pound stock surrendered payable November 26, 1940, plus a certain amount for accrued interest. Was that stock at par when it was redeemed?

Mr. COOPER: No. The vesting price of £103 7s. 4d. was the market price on October 26, which was the date the vesting order was made.

Mr. POULIOT: Therefore the stocks have a plus value on account of the fact that it was to be redeemed.

Mr. COOPER: No; the stock at the time it was vested was not subject to call; it was a perpetual stock. But the British government under their War Measures Act—

Mr. POULIOT: It is said here there was an order made by His Majesty's treasury of the United Kingdom dated October 26, 1940, stating that such portion of the said debenture stock as was held by residents of the United Kingdom was transferred to the treasury, which means that the United Kingdom treasury took hold of that stock that was held by people living in Great Britain.

Mr. COOPER: Yes.

Mr. POULIOT: And the vesting order was made upon the condition that the Canadian National Railway Company would purchase the stock from the treasury under the vesting price. Well, then, did the order apply to the Canadian National Railway or was it done willingly?

Mr. COOPER: It was an arrangement between the finance department here and the British treasury in London.

Mr. POULIOT: Over your heads. Speak frankly, as you have done since the beginning, Mr. Cooper.

Mr. COOPER: Well, of course the repatriation of securities is not a matter which any corporation to-day has anything to do with or say about; it is a matter entirely in the hands of the government concerned.

Mr. POULIOT: In fact, you were not consulted?

Mr. COOPER: Well, I could not say that.

Mr. POULIOT: You were consulted after it was done?

Mr. COOPER: I was not consulted, but I could not say that other officers of the railway were not consulted.

Mr. POULIOT: Mr. Cooper, you are acquainted with the railway problem. You know these accounts as well as, if not better, than anyone else, and therefore this was your field of action.

Mr. COOPER: Yes.

Mr. POULIOT: In fact, you are the financial expert of the Canadian National Railways.

Mr. COOPER: No, I am only the accountant of the National Railways.

Mr. POULIOT: You say that in your very modest way.

Mr. ROSS: A distinction without a difference, that is all.

Mr. POULIOT: Mr. Cooper, I am greatly interested in this because I want to know how it works and whether or not it was done outside of the management. I cannot get any information naturally from outside, but this is an important thing. It was a very big piece of business and I should like to know how it was done. Is that not true, Mr. Cooper?

Mr. COOPER: I think it is as it is set out here. From the railway point of view it was a very good piece of business.

Mr. POULIOT: Yes, because you got rid of that obligation.

Mr. COOPER: Yes, we gained \$5,500,000 on the purchase price.

Mr. POULIOT: Oh, yes.

Mr. COOPER: And we saved in interest charges \$740,000 a year.

Mr. POULIOT: I am not questioning that. It is just the same as if I owed \$500 to a man and a friend of mine paid it and I got rid of the obligation.

Mr. COOPER: Can we express it this way? The British government have from time to time named the United States and Canadian securities which became subject to their vesting order. These companies were not consulted.

Mr. POULIOT: No, it was done between government.

Mr. COOPER: Yes.

Mr. POULIOT: And as I said, over the heads of the company.

Mr. COOPER: The British government, I think, does not even need to consult the Canadian government. They were taking away from their own citizens the property of those citizens.

Mr. POULIOT: Yes, exactly. Now, Mr. Cooper, there is one question that I want to ask you and it is very simple. Did you or did the management to your knowledge have the opportunity to say it is a good piece of business before it was done?

Mr. COOPER: It is not within my knowledge whether they did or not.

Mr. HUNGERFORD: I think it was; I think we agreed.

Mr. GRAY: What difference does it make?

Mr. POULIOT: Did we have the opportunity to say to the government it is good before it was done?

Mr. GRAY: I do not see what difference it makes.

Mr. POULIOT: It makes a great difference.

Mr. HUNGERFORD: I am speaking from memory now, but I think the deal was approved by the directors of the Canadian National Railways.

Mr. POULIOT: Before or after?

Mr. HUNGERFORD: Before.

Mr. JACKMAN: May I ask exactly what has happened to these perpetual debenture stocks? Have they actually been retired now?

Mr. COOPER: No; the government is holding them as security for their advances to the railway.

Mr. JACKMAN: The railway really did the purchasing, then.

Mr. COOPER: Yes.

Mr. JACKMAN: With money advanced by the government?

Mr. COOPER: Yes.

Mr. JACKMAN: And put the bonds or notes in collateral to the government.

Mr. COOPER: That is correct.

Mr. JACKMAN: So that the debentures are either off the statement now or will come off when you get them completed.

Mr. COOPER: Yes; at the end of the year £10,000,000 had been taken up. Since that date an additional £11,150,000 have been taken up. Actually £21,150,000 have been taken up so far, and the government holds the securities.

The CHAIRMAN: This is the great batch of bonds that has been causing trouble all along for years, and the bonds which the committee has been discussing for years.

Mr. GRAY: Part of it.

The CHAIRMAN: I know, part of it.

Mr. JACKMAN: They will stand then as a collateral liability of the company, will they, inasmuch as they have been—

Mr. COOPER: Yes, but as far as our balance sheet is concerned the liability will now be represented by a loan from the government.

The CHAIRMAN: What proportion of those bonds is the amount that has been mentioned?

Mr. COOPER: On which bonds?

The CHAIRMAN: Of the perpetual 6 per cent bonds.

Mr. ARMSTRONG: There are only \$70,000 worth of 6 per cent bonds.

Mr. McCULLOCH: Are these 6 per cent bonds?

The CHAIRMAN: No, 4 per cent bonds. There are \$70,000 of 6 per cent bonds left.

Mr. ARMSTRONG: There are other 5 per cent perpetual bonds.

Mr. COOPER: About one-half of the perpetuals.

Mr. POULIOT: What about the valuation of the pound at that time? When was it considered? Was the value of the pound considered at the time of the purchase or at the time of the payment?

Mr. COOPER: The value of the pound has not changed since the Foreign Exchange Board fixed the exchange value of the pound in relation to the Canadian dollar.

Mr. POULIOT: It was not the current value of the pound; it was the value established by the Foreign Exchange Control Board.

Mr. COOPER: Yes.

Mr. POULIOT: It was not the value that appeared in the paper on the date the payment was made?

Mr. COOPER: There are no values to-day other than the one fixed by the Foreign Exchange Control Board. There is no market quotation as between Canadian dollars and sterling.

Mr. POULIOT: I know.

Mr. COOPER: This exchange was made at the official rate of exchange.

Mr. POULIOT: At the time of the deal?

Mr. COOPER: The rate has not changed since October when this deal commenced. There has been no change in the official rate of exchange so you can say it was on the date of October 26 or any date you like. It is always the same rate.

Mr. POULIOT: Did they take some time to pay the deal?

Mr. COOPER: We are still buying in these bonds; they have not yet all been turned in to the U.K. treasury; but as they are turned in we take them up.

Mr. POULIOT: What I mean is it did not vary from the time it was agreed to until the moment payment was made?

Mr. COOPER: No, it did not.

Mr. POULIOT: That is all right. What was the length of time between both dates, approximately?

Mr. COOPER: The vesting order was made on October 26, 1940. The order called for surrender on November 26, and there are no exchanges up to that date. There have been exchanges right along from that date to to-day and we are still taking them up, and in all that period of time the exchange rate is as fixed by the Foreign Exchange Control Board and it has not varied.

Mr. POULIOT: Were the bonds redeemed on maturity date? Were they all matured?

Mr. COOPER: No; these were perpetual bonds.

Mr. POULIOT: Perpetual?

Mr. COOPER: Perpetual.

Mr. McCULLOCH: Let us carry on.

The CHAIRMAN: The next order.

Mr. GRAY: Are we going to have to sit to-morrow?

The CHAIRMAN: 10.30.

Mr. GRAY: Some of us have been sitting since 10 o'clock this morning.

The CHAIRMAN: I know, but we have to get the work done.

Mr. GRAY: We will finish up to-morrow anyway.

The CHAIRMAN: We can stop any time you like. Shall we carry on for fifteen minutes?

Mr. JACKMAN: I move we adjourn, Mr. Chairman.

The CHAIRMAN: We shall adjourn now to meet at 10.30 to-morrow morning.

The committee adjourned at 10.20 p.m. to meet to-morrow morning at 10.30 a.m.

Q. J. Dor.
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Canada. Railways and
Standing Committee on, 1940/41

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SESSION 1940-41

HOUSE OF COMMONS

-B17

STANDING COMMITTEE ON RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

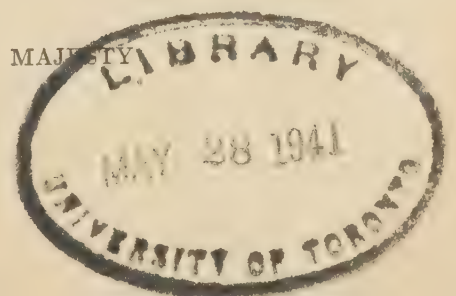
No. 2

WEDNESDAY, MAY 21, 1941

WITNESSES:

- Mr. S. J. Hungerford, President, Canadian National Railways.
- Mr. R. C. Vaughan, Vice-President, Canadian National Railways.
- Mr. T. H. Cooper, Comptroller, Canadian National Railways.
- Mr. W. M. Armstrong, Assistant Chief of Research and Development, Canadian National Railways.
- Mr. O. A. Matthews, Auditor, George Touche & Co.
- Mr. W. S. Thompson, Director of Publicity, Canadian National Railways.
- Mr. Alistair Fraser, Vice-President, Canadian National Railways.
- Mr. G. R. Fairhead, Gen'l Freight Traffic Manager, C.N.R.
- Mr. F. M. MacLennan, Secretary, Canadian National Railways Securities Trust.

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1941



MINUTES OF PROCEEDINGS

WEDNESDAY, May 21, 1941.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met this day at 10.30 a.m. Mr. J. P. Howden, the Chairman, presided.

Members present: Messrs. Donnelly, Emmerson, Gray, Hanson (*Skeena*), Hazen, Howden, Jackman, Lockhart, McCulloch, Maybank, Nicholson, Pouliot, Ross (*Middlesex East*), Sanderson, Sissons.

In attendance: Hon. P. J. A. Cardin, the Minister, and the following officials, of the Department of Transport: Mr. C. P. Edwards, Deputy Minister; Mr. F. M. MacLennan, Chief Treasury Officer. Mr. S. J. Hungerford, the President, and the following General Officers, of the Canadian National Railways System: Mr. R. C. Vaughan, Vice-President; Mr. T. H. Cooper, Comptroller; Mr. W. M. Armstrong, Ass't.-Chief, Bureau of Research and Development; Mr. Alistair Fraser, Vice-President in charge of Traffic; Mr. G. R. Fairhead, General Freight Traffic Manager; Mr. W. S. Thompson, Director of Publicity. Mr. O. H. Matthews, representing Geo. A. Touche & Co., Auditors.

The Committee resumed the study of the Annual Report of The Canadian National Railways System for the year ended 31st December, 1940.

Mr. W. M. Armstrong was recalled. During his examination he was assisted by Messrs. Hungerford, R. C. Vaughan, T. H. Cooper and W. S. Thompson.

Mr. O. H. Matthews, representing A. Touche & Co., Auditors, was called for a short examination in connection with the Auditor's Report.

At 1 o'clock p.m., on motion of Mr. Ross (*Middlesex East*), the Committee adjourned, to meet again at 3.30 o'clock p.m. this day.

The Committee met again at 3.30 o'clock p.m., Mr. J. P. Howden, the Chairman, presiding.

Members present: Messrs. Donnelly, Emmerson, Gray, Hanson (*Skeena*), Hazen, Howden, Jackman, McCulloch, Maybank, Nicholson, Pouliot, Ross (*Middlesex East*), Sanderson, Sissons.

In attendance: Those named as attending the proceedings of the morning session.

The Committee continued the study of the Annual Report of The Canadian National Railways System for the year ended 31st December, 1940.

Mr. W. M. Armstrong was recalled and during his examination was assisted by Messrs. Hungerford, R. C. Vaughan, Alistair Fraser, T. H. Cooper, and G. R. Fairhead.

On motion of Mr. McCulloch the Committee agreed to adopt the Annual Report of the Canadian National Railways System for the year ended 31st December, 1940.

The Committee then proceeded to the consideration of the Annual Report of The Canadian National Railways Securities Trust for the year ended 31st December, 1940.

Mr. F. M. MacLennan, the Secretary, read the report and Mr. T. H. Cooper, the Comptroller, was questioned thereon.

On motion of Mr. Hanson (*Skeena*) the Committee agreed to adopt the Annual Report of the Canadian National Railways Securities Trust for the year ended 31st December, 1940.

At 5.35 o'clock p.m., on motion of Mr. Hazen, the Committee adjourned to meet again on Thursday, May 22, at 3.30 o'clock p.m.

ANTOINE CHASSÉ,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, Room 227,

May 21, 1941.

The Standing Committee on Railways and Shipping met at 10.30 o'clock a.m. The chairman, J. P. Howden, presided.

The CHAIRMAN: I think last night we had just reached page 12—Dominion-Government Proprietor's Equity.

Mr. ARMSTRONG:

DOMINION GOVERNMENT—PROPRIETOR'S EQUITY

	Balance at 31st Dec., 1939	Change during year	Balance at 31st Dec., 1940
Canadian National Railway Company, Capital Stock.....	\$ 18,000,000 00	.....	\$ 18,000,000 00
The Canadian National Railways Securities Trust, Capital Stock.....	264,012,426 42	\$ 1,694,179 20	265,706,605 62
Dominion Government Capital Expendi- tures for Canadian Government Railways.....	388,075,722 18	2,323,138 49	385,752,583 69
	<u>\$670,088,148 60</u>	<u>\$ 628,959 29</u>	<u>\$669,459,189 31</u>

The CHAIRMAN: Is there any discussion?

Mr. HANSON: Carried.

Mr. ARMSTRONG: Page 13—Consolidated Income Account.

The CHAIRMAN: What does the committee think about that? Do we need to go over this page item by item?

Mr. McCULLOCH: If they are put in the minutes I think it would be sufficient; it means a lot of reading.

Mr. ROSS: I do not think it requires reading, Mr. Chairman.

The CHAIRMAN: Do you want to take a moment or two to consider it, or are we going to let it pass?

Mr. JACKMAN: I notice that the taxes amount to \$7,039,000, which is approximately the same as in 1939. Those go to all the various taxing powers throughout the dominion, do they?

Mr. COOPER: Yes.

Mr. JACKMAN: And they consist chiefly of payments to what type of political bodies?

Mr. COOPER: The provinces and municipalities.

Mr. JACKMAN: We do not pay any taxes to the dominion for anything at all?

Mr. COOPER: For income tax? No.

Mr. JACKMAN: There is no income tax, but there are no taxes paid to them apart from sales tax and general taxes like that?

Mr. COOPER: Sales tax is not included in that figure. There are some small dominion taxes, but they do not amount to very much.

Mr. JACKMAN: What type of taxes do you pay to the provinces?

Mr. COOPER: It is on the mileage of the railway within the province, an arbitrary amount, say, \$1,000 a mile. I do not know what the figure is, but it is on that basis.

Mr. JACKMAN: For every mile of track you have in a province you have to pay that particular province \$1,000?

Mr. COOPER: It varies with the different provinces, and I only used \$1,000 by way of illustration. The provincial tax is a tax based on the mileage of the railway within the province, and we pay this tax year by year to the province.

Mr. JACKMAN: Does the province provide any service for the railway in return for that tax, or is it simply the collector of revenue for giving a quid pro quo.

Mr. COOPER: I suppose the province provides services to all the citizens of that province in some form or another.

Mr. JACKMAN: They do not give you fire protection. I suppose they might give you some police protection, to some extent, but is there any particular reason why they should tax a railway line?

Mr. COOPER: They think so. All corporations are subject to provincial taxes of one form or another. Railway taxes are not included in the ordinary form of corporation tax, but it is covered by the taxing statutes of the provinces.

Mr. JACKMAN: Of course, there are not very many railways and they have more or less to make a special bracket for you. I suppose they can tax you as a corporation in regard to the property within the borders of the province?

Mr. COOPER: No doubt about that.

Mr. NICHOLSON: Do you pay taxes on all the hotels?

Mr. COOPER: Yes; we pay taxes on all the hotels.

Mr. NICHOLSON: No inducement was offered to the railways when these hotels were being built in the different cities in the way of exemption from taxes?

Mr. COOPER: No. There may have been some concessions made, but there was no general exemption.

CONSOLIDATED INCOME ACCOUNT

	Year 1940	Year 1939
Railway Operating Revenues.....	\$247,527,224 81	\$203,820,186 62
Railway Operating Expenses.....	202,519,812 88	182,965,768 18
Net Revenue from Railway Operations.....	\$ 45,007,411 93	\$ 20,854,418 44
Railway Tax Accruals.....	6,245,955 70	6,246,460 72
Railway Operating Income.....	\$ 38,761,456 23	\$ 14,607,957 72
Rent from Locomotives.....	99,470 71	103,236 23
Rent from Passenger-Train Cars.....	241,229 85	286,343 14
Rent from Floating Equipment.....	1,235 99	29 00
Rent from Work Equipment.....	152,469 06	146,344 00
Joint Facility Rent Income.....	1,634,640 82	1,646,613 65
Hire of Freight Cars—Debit Balance.....	2,210,844 87	1,651,107 92
Rent for Locomotives.....	32,819 76	43,404 24
Rent for Passenger-Train Cars.....	355,611 58	308,672 60
Rent for Floating Equipment.....	68,189 53	67,865 61
Rent for Work Equipment.....	26,864 86	7,856 93
Joint Facility Rents—Debit.....	2,231,764 12	2,273,227 76
Net Railway Operating Income.....	\$ 35,964,407 94	\$ 12,438,388 68
Revenues from Hotel Operations.....	3,936,313 26	3,331,303 03
Expenses of Hotel Operations.....	3,304,806 91	2,901,439 17
Taxes on Hotel Property.....	129,320 28	127,500 27
Net Hotel Operating Income.....	\$ 502,186 07	\$ 302,363 59
Income from Lease of Road and Equipment.....	74,144 94	74,319 47
Miscellaneous Rent Income.....	905,144 90	929,270 03
Miscellaneous Non-Transportation Property—Credit.....	108,837 91	49,228 23
Dividend Income.....	549,037 65	420,288 50
Income from Funded Securities.....	1,858,535 52	1,783,507 80
Income from Unfunded Securities and Accounts.....	429,756 89	365,115 38
Income from Sinking and Other Reserve Funds.....	155,753 63	169,020 47
Miscellaneous Income.....	1,588,663 71	1,634,409 95
Miscellaneous Rents—Debit.....	552,935 01	616,582 11
Miscellaneous Tax Accruals.....	86,299 16	130,159 75
Separately Operated Properties—Loss.....	1,529,406 12	1,284,803 42
Miscellaneous Income Charges.....	2,047,110 98	885,466 35
Income Available for Fixed Charges.....	\$ 37,920,717 89	\$ 15,248,900 47
Rent for Leased Roads and Equipment.....	1,467,326 76	1,459,907 66
Interest on Funded Debt—Public.....	48,701,523 73	49,814,377 90
Interest on Government Loans.....	1,737,963 50	916,165 01
Interest on Unfunded Debt.....	297,390 31	183,335 56
Amortization of Discount on Funded Debt.....	1,101,083 25	1,114,378 48
Total Fixed Charges.....	\$ 53,305,287 55	\$ 53,488,164 61
Income <i>Deficit</i> transferred to Profit and Loss.....	\$ 15,384,569 66	\$ 38,239,264 14

Mr. Ross: I see there is an increase in the loss of over \$200,000 on the separately operated properties in 1940 as compared with 1939. Is that confined to a small number of items or is it spread over?

Mr. COOPER: There is the Rail and River Coal Company. The mines were closed down for a period during 1940, and that accounts for an increase in the deficit of \$140,000.

Mr. Ross: That takes care of \$140,000?

Mr. COOPER: Yes. There are quite a number of companies involved. I would be glad to let you see the statement, if you wish.

Mr. Ross: Later.

Mr. JACKMAN: I notice the net cost of acquiring United States and sterling exchange increased \$1,151,000. What was the total, if the \$1,151,000 was the increase?

Mr. COOPER: In 1939 the average cost of United States funds was \$1.028. In 1940 the rate was fixed at \$1.11 per dollar.

Mr. JACKMAN: How much was the C.N.R. out of pocket in purchasing foreign exchange, net, that is, United States cost less sterling profit?

Mr. COOPER: In 1940 the net loss on exchange, sterling and United States funds, was \$565,000. In 1939 there was a profit on exchange transactions of \$585,000. That is a profit of \$585,000 in 1939 which was turned into a loss of \$565,000 in 1940 and which brings the change up to \$1,151,000.

Mr. JACKMAN: On page 5 under the account heading "Other income on profit and loss requirements," there is a statement which I read at the beginning showing the net cost of acquiring United States and sterling exchange increased \$1,151,000. How does that jibe with that loss of \$565,000?

Mr. COOPER: It says that the cost increased—

Mr. JACKMAN: That is the net cost.

Mr. COOPER: The net cost?

Mr. JACKMAN: You just state the net loss which I presume is the same as the net cost on exchange in 1940, \$565,000, and yet on page 5 you have got the net increase in the cost, \$1,151,000?

Mr. COOPER: In 1939 we had a profit of \$585,000.

Mr. JACKMAN: You add the loss and the profit?

Mr. COOPER: To get the increased cost.

Mr. JACKMAN: I notice that the rent for foreign cars increased. I presume that is because we borrowed more American cars?

Mr. COOPER: Traffic was increasing much faster than was the rail traffic in the United States. Our per diem payments in 1940 amounted to \$2,210,000 as compared with \$1,651,000 in 1939.

Mr. JACKMAN: What is the ordinary experience in prior years in regard to paying for rental cars, that is, the net? What do the United States lines pay us or the C.P.R. as against what we pay for borrowed cars? Ordinarily, do we make money or lose money in this sense: do we pay more for the cars we rent or do we get more for the cars we lease?

Mr. HUNGERFORD: The rental payments are on exactly the same basis as between companies. It is \$1 a day for nearly all cars. The process is more or less automatic, and, as the traffic increases, you get more foreign cars delivered to you under load, and all the time a foreign car is on your rails you have to pay \$1 a day.

Mr. JACKMAN: I appreciate that, but are we in ordinary years the debtor or creditor on that account?

Mr. HUNGERFORD: I think we are a debtor, generally.

Mr. ARMSTRONG: On railway owned cars, that is, freight cars, we are usually a creditor road. But there are what are called "private line cars" which are refrigerator cars, tank cars, etc.

Mr. JACKMAN: Do you use the cars of the Pullman company?

Mr. ARMSTRONG: Those would not come into this particular item, as they are passenger cars. But as I say, with regard to the ordinary run of box cars, flat cars, coal cars, we are usually a creditor road to a small amount. But because of these private line cars (which are owned by private companies) running over our rails and on which we pay from one and a half to two cents a mile, we are usually a debit road when the whole account is taken together.

Mr. JACKMAN: Then on account of these special purpose cars owned by private companies the typical railroad on the American continent is a debtor railroad in regard to rentals?

Mr. ARMSTRONG: That depends upon what proportion of their traffic is of this particular type. The Canadian National, for instance, is a large participant in the movement of perishables, and that puts us in a position where we are usually a debit road. It is not true of all railways.

Mr. Ross: Where is the Rail and River Coal Company situated?

Mr. VAUGHAN: It is situated in Ohio.

Mr. Ross: Have you any history of our contact with that company? The loss is \$140,000.

Mr. VAUGHAN: The mines were not operating from the first of January to October, because we could purchase coal cheaper than we could mine it.

Mr. Ross: We have holdings in that company?

Mr. VAUGHAN: We own the entire capital stock of the company which has a production capacity of 2,000,000 tons a year. In the early part of last year, until the minimum code prices were made effective at Washington, we could purchase coal cheaper than we could mine it. From the first of October when the minimum code prices came into effect we found we could mine coal cheaper than we could purchase it for, so we began to operate the mine again.

Mr. Ross: But during the interval we lost \$140,000?

Mr. VAUGHAN: That \$140,000 represents various things, including the cost of keeping the mine in shape and the interest on moneys of the Canadian National that were advanced in previous years, as well as taxes, depreciation, etc.

Mr. McCULLOCH: When this mine is closed down it keeps the mine in Nova Scotia busy.

Mr. VAUGHAN: No. I think I might take exception to that now because we could use 1,000,000 tons more of Nova Scotia coal this year.

Mr. McCULLOCH: In the past that has been so?

Mr. VAUGHAN: No; it has never affected the Nova Scotia mines.

Mr. POULIOT: Regarding rents, and to use untechnical terminology and give a clear illustration, the Union station at Ottawa belongs to the C.N.R. and the Paris station in Quebec city belongs to the C.P.R. Both railways use both stations, and I should like to know what the arrangement is in both cases in a broad way?

Mr. ARMSTRONG: In a broad way it is on what we term a user basis; that is, the maintenance and operation of the station is on the basis of the use that is made of the station; that is, the number of cars and locomotives.

Mr. POULIOT: And it is paid fifty-fifty? The maintenance and so on is paid fifty-fifty?

Mr. ARMSTRONG: No, sir; in relationship between the number of cars and locomotives using the terminal. That may not be fifty-fifty.

Mr. POULIOT: Therefore each C.N.R. car when it is coming in, is checked?

Mr. ARMSTRONG: Yes.

Mr. POULIOT: And that is so for pool trains?

Mr. ARMSTRONG: There is a special adjustment in connection with pool trains, particularly at Quebec.

Mr. POULIOT: Do you not think it would be much more simple to pair two stations like that and make an arrangement with the C.P.R. and say to them, "We will use your pool station and you will use our Union station"? That would save a lot of accounting.

Mr. ARMSTRONG: It might be what someone referred to the other day as one horse and one rabbit. The total costs are not the same in both cases. Interest charges and maintenance and other costs are greater in the one case than they are in the other.

Mr. NICHOLSON: I should like to refer to a statement made yesterday with regard to profits and losses on hotel operations. I notice there was a profit in connection with the Bessborough in Saskatoon. Did that take into account interest on the capital invested in the hotel?

Mr. ARMSTRONG: No.

Mr. NICHOLSON: No account was taken of that?

Mr. COOPER: No, we did not.

Mr. MAYBANK: You do not give any statement to show that, do you? You always simply show operating profit or loss?

Mr. COOPER: Yes.

Mr. MAYBANK: No account is ever taken of the investment. I mean, in the statement you make?

Mr. COOPER: That is right.

Mr. MAYBANK: I have here a statement, taxes on hotel properties, \$129,000 I think it is. That is all municipal taxes?

Mr. COOPER: Yes.

Mr. MAYBANK: Wherever you have an hotel, you pay the ordinary taxes that any other similar business pays. Is that right?

Mr. COOPER: I could not say. That is a matter for our tax commissioner. I think in every case it is a matter of negotiation. But generally the railway is taxed by the municipalities just like any other corporation.

Mr. MAYBANK: Sometimes you do not, but generally speaking you pay the usual taxes?

Mr. COOPER: Yes.

The CHAIRMAN: Page 14. Are you ready to go ahead?

Mr. POULIOT: Just a word, please, Mr. Chairman. I understand there is one item that has been carried now—Dominion government, proprietor's equity. I have a suggestion to make. Here we have the estimates and there are many items for the C.N.R. at page 47 and page 48. I wonder if it would not be possible for us to prepare the report just the same as this, and have the estimates in the report in order that we may see what is coming to the House at the same time—the estimate under each item concerned. I do not mean to have it this year; it could be for next year. Every one would be more familiar with the whole situation and the whole picture.

Hon. Mr. CARDIN: This is the report of last year. The point you mention is covered by the budget which we consider later on.

Mr. POULIOT: Yes.

Hon. Mr. CARDIN: The budget includes all the items you find in the estimates.

Mr. POULIOT: Yes.

Mr. JACKMAN: On page 5, Mr. Chairman—

The CHAIRMAN: Just a minute, Mr. Jackman, till we get this matter straightened out. Mr. Hungerford says they have this statement here, Mr. Pouliot, of the estimated cost. You want the estimated cost shown opposite the items; is that the idea?

Mr. POULIOT: Yes, or beneath.

The CHAIRMAN: The secretary has copies of this for each member.

Mr. POULIOT: Yes. But we have a lot of papers and when it is all together on the same sheet it is easier to follow it.

The CHAIRMAN: It is a matter for Mr. Cooper.

Mr. POULIOT: That is just a matter of making things easier for us, because we cannot carry a whole library with us all the time.

Mr. MAYBANK: What is this funded debt on which there is \$297,000 of interest? I hope I am not breaking in on a question. I do not know whether I am or not. I could not follow proceedings very well from back here.

Mr. JACKMAN: That is the second item from the last on page 13.

The CHAIRMAN: Order, gentlemen. One at a time, please.

Mr. COOPER: What was the question?

Mr. MAYBANK: I wanted an explanation of that unfunded debt item in a general way.

Mr. COOPER: In a general way it is interest on bank overdrafts or anything of that sort.

Mr. MAYBANK: Bank overdrafts?

Mr. COOPER: Interest on funded debt is interest on debts which are represented by securities. Interest on unfunded debt is interest on debt which is not represented by securities.

Mr. MAYBANK: Yes, I realize that; and that, I suppose, would be divided into various classifications. I want to know the general nature of those. You say it is chiefly interest on bank balances from time to time?

Mr. COOPER: Yes.

Mr. JACKMAN: Bank debits?

Mr. COOPER: Yes. Also interest on unpaid taxes when due.

Mr. MAYBANK: It might be that too?

Mr. COOPER: Yes. Interest on unpaid accounts when due, if they carried interest, would come into this account.

Mr. MAYBANK: That is all I want.

Mr. JACKMAN: What is the average rate of interest you have to pay to the bank on overdrafts, approximately?

Mr. COOPER: I could not answer that. I doubt, as a matter of fact, whether in 1940 we had any overdrafts.

Mr. JACKMAN: You would have no overdrafts?

Mr. COOPER: I doubt whether we had one. I do not think we had.

Mr. JACKMAN: What does your unfunded debt consist of as well as arrears of taxes?

Mr. MAYBANK: You would have overdrafts, according to what you just said.

Mr. COOPER: You asked me in a general way what the account was.

Mr. MAYBANK: Yes, yes. You ordinarily create bank balances, but this time you did not have an overdraft, so it would be some of these other classifications you mentioned?

Mr. COOPER: Yes. In the case of workmen's compensation—the largest item in 1940 has reference to workmen's compensation payments. We capitalize the cost to us of a workman's compensation award which is payable on an instalment basis. That is, we charge our operating account with the capital sum itself and accrue annually the interest which would be earned on the amount if it were taken out of the general account and placed in a special fund. The interest is taken up in our accounts as interest on unfunded debt.

Mr. MAYBANK: Your arrangements with the various compensation boards is that you will supply them with the money if, as, and when needed in respect of any accident?

Mr. COOPER: Yes.

Mr. MAYBANK: You do not pay any money in there in the way of premiums?

Mr. COOPER: No.

Mr. MAYBANK: To the boards?

Mr. COOPER: No.

Mr. MAYBANK: Do you?

Mr. COOPER: There are a lot of different arrangements regarding workmen's compensation in the provinces.

Mr. GRAY: Does it differ from province to province?

Mr. COOPER: My recollection of the prairie provinces is that we pay a percentage of our pay roll into the Workmen's Compensation Board and we are acquitted with that payment of further liability.

Mr. GRAY: Then it does vary?

Mr. COOPER: Yes.

Mr. GRAY: According to the various provincial Acts?

Mr. COOPER: Yes. In Ontario we pay the actual cost.

Mr. MAYBANK: That is quite sufficient for my purpose.

Mr. JACKMAN: What have these workmen's compensation board awards or premiums got to do with interest?

Mr. COOPER: Let us say there is an accident, and we estimate that we will have to pay over a period of years the sum of \$10,000. We charge our accounts with a sum which, accumulating at interest over that period of time, would amount to \$10,000. The difference between the principal sum and the accumulated total on a sinking fund basis is interest, and that interest charge is in this account.

Mr. JACKMAN: You do not just charge the premium from year to year against the current operations?

Mr. COOPER: Oh, no. That would not be right. If we had a bad accident in 1940 we would charge 1940 operations with the cost of such accident. We should estimate what the total future workmen's compensation payments will be and we charge to our accounts a sum, which accumulating at interest over the estimated period of disability, will meet all the monthly payments due to that employee. The interest portion of such items is in this account.

Mr. JACKMAN: I presume that is rather unique with the railway systems, is it? I am speaking of the method.

Mr. COOPER: Let us put it the reverse way. Instead of doing it that way, if we set aside in a sinking fund, say \$8,000, the total payments being estimated to amount to \$10,000, we would figure that perhaps the sum of \$8,000 with interest over the period of the disability will provide sufficient to pay monthly compensation payments amounting in all to \$10,000.

Mr. JACKMAN: Yes.

Mr. COOPER: If that sum were in the sinking fund, there would be an interest earning, would there not?

Mr. JACKMAN: Yes.

Mr. COOPER: We do not set the sum aside. We keep it in our general account, but the effect is the same. There is the interest factor on a delayed payment.

Mr. JACKMAN: Yes.

Mr. COOPER: That interest factor is accounted for by us through this account.

Mr. JACKMAN: Yes. What rate of interest do you have to pay the government for temporary loans?

Mr. COOPER: Three and a half per cent generally. You will find that set out, Mr. Jackman, on page 20.

Mr. JACKMAN: On page 5 again you mention, three lines from the bottom, taxes, interest on funded debt, interest paid to the government, etc., totalled \$61,972,000. Yet taking the figures above on that page, we have taxes of \$7,039,000, interest to the public, \$48,701,000; interest to the government, \$1,737,000, giving a total of \$57,477,000, which leaves a discrepancy of about four and a half millions between the total of those three items and the amount I mentioned first, namely \$61,972,000. I presume those four and a half millions are included in the "etc.". But what is the general nature of the items constituting that?

Mr. COOPER: Would you mind turning to page 13? If you turn to the item under tax accruals and then continue with rents of locomotives, and go on down that page including everything except interest on funded debt and interest on government loan, together with the item shown on page 12, the net of these different accounts amounts to some \$4,000,000; which is I think the answer to your question. This paragraph on the bottom of page 5 is a very brief statement. We set out the operating revenue which is an item of primary interest; we set out the interest and taxes and that sort of thing; but we do not go into detail of all the accounts which are a part of our income account, they are all detailed on page 13, and it is an aggregate of these items which are not specifically set out which are grouped together in the word "etcetera" on page 5.

Mr. POULIOT: You probably agree that the consolidated income account on page 13 is hard to understand for a layman. According to this there are rents from locomotives etcetera and rents for locomotives—will you please tell me what is the difference between a rent from a locomotive there and a rent for a locomotive, with examples?

Mr. COOPER: Rent from locomotives is the rent we receive when another railway company makes use of one of our locomotives.

Mr. POULIOT: Yes, rent from is when you rent it to another company.

Mr. COOPER: That is right and when it is for locomotives it is the reverse, when we rent it from another company.

Mr. POULIOT: Therefore the charge is made to you?

Mr. COOPER: Yes.

Mr. POULIOT: How is it that all that is together here? Don't you think it would be better to put rent for locomotives under rent from locomotives and so on in order to check it?

Mr. COOPER: There have been a number of opinions as to the best way in which to show these income accounts. Which ever way you do it it is going to be a little bit confusing for the man in the street. But there is a more or less uniform recognized way of stating railway accounts in use by all railway companies. This report is not prepared primarily for the use of this committee. It is the report to be circulated across this continent and goes out to all the other railway companies.

Mr. POULIOT: Yes, but in this committee it is difficult to make an efficient comparison between credits and debits.

Mr. COOPER: Yes, it is, Mr. Pouliot; I quite admit that, however, the difficulty is in adding it, and I suggest that you don't worry yourself about that. The item of rent from locomotives is set out very clearly with the corresponding figure for the previous year and with the explanations as to what the item means; and I do not see how you could show it any more clearly, unless we were to show "our company locomotives rented to other railway companies"—and I do not see that we need to make the description as elaborate as that.

Mr. POULIOT: What do you do in the case of those trains that run down through the eastern states?

Mr. ARMSTRONG: We do not pay rental for a locomotive in that particular case. The railways make an arrangement whereby the locomotive of the road over which the train is running is paid for by that company. That is for instance, the New Haven handle that train between Springfield and New York, and that company does that with their own locomotive which hauls the train. There is no settlement made between the companies for that work.

Mr. POULIOT: Thank you.

The CHAIRMAN: Page 14.

Mr. JACKMAN: At the bottom of page 13 we see that the income deficit transferred to profit and loss amounts to \$15,384,000 odd; then I must refer to the report of George A. Touche and Company at page 2 where they say: "We would again recommend the establishment at an early date of uniform accounting regulations, of a mandatory character, applicable to all Canadian railways under the statutory authority of the dominion." Would someone amplify just what George A. Touche and Company are referring to there?

The CHAIRMAN: Could we not make a note of that just now and take it up when we come to it?

Mr. JACKMAN: It has such a bearing on income accounts, because if the public auditors are qualifying their certificate it obviously must refer to items which should go into the current operating account for the year, and we are dealing with the consolidated income account which includes these matters.

Mr. COOPER: There is a lack of uniformity I think in the accounts as kept between ourselves and those of the Canadian Pacific Railway. The differences are getting smaller as time goes on, but generally the Canadian National System of accounts is based upon a structure set out in the accounting regulations of the Interstate Commerce Commission, which is mandatory with respect to all United States railways; and one of the problems in our case is that a large part of our system is within the United States and it is subject to the orders of the Interstate Commerce Commission, and we must by law keep our accounts in accordance with their requirements. It is very convenient to have uniformity when we come to stating our Canadian accounts so that we can make system accounting on a uniform basis. The Canadian Pacific do not have to meet that particular difficulty to the extent that we do. On the other hand, I think the Canadian Pacific point of view has been that their shareholders are very largely residents of the United Kingdom and they rather lean toward the United Kingdom system of keeping railway accounts. There has never been a regulation issued by the Canadian authorities describing and making mandatory a uniform system of accounting, and that is what the government auditors have reference to; in their opinion they think that something of that sort should be brought about and enforced.

Mr. JACKMAN: It is desirable in order that comparisons may be made with the other line in Canada.

Mr. COOPER: We have always urged uniformity of accounting.

Mr. JACKMAN: Yes. May I ask if the implications of that paragraph in the Touche report simply refer to the method of stating the accounts, or do they go forth deeply into matters such as depreciation and other charges and operations; is it simply the method of stating accounts as you have been?

Mr. COOPER: That is a question I think you would have to address to Mr. Matthews who is a member of George A. Touche and Company.

Mr. JACKMAN: Is he here?

The CHAIRMAN: Yes. Do you want the question answered now?

Mr. JACKMAN: It all has to do with this question. I do not want to inconvenience the committee but I would suggest that it has such a direct bearing on income that I think we should have it.

The CHAIRMAN: Is it the wish of the committee that Mr. Matthews be asked to reply to this interrogation?

Some hon. MEMBERS: Yes.

The CHAIRMAN: Mr. Matthews, will you please come forward.

O. A. MATTHEWS, of George A Touche and Company, called:

Mr. MATTHEWS: Would you like me to answer this question alone or to deal with the whole matter in which we are interested?

The CHAIRMAN: Well Mr. Matthews, we seem to be held up with the pursuance of this report on these things. I think we just want this question cleared up for the time being.

Mr. MATTHEWS: Well, Mr. Chairman, and Mr. Jackman: This matter of uniform accounting between the Canadian National and the Canadian Pacific Railways has been the subject matter of our reports on a number of occasions for five or six years and I may say that its importance from the point of view of the Canadian National lies in the fact that for years the performance of the Canadian National Railways has been made a subject of comparison with the Canadian Pacific on the basis of published accounts. The Canadian National Railways has chosen since amalgamation in 1923—with the principal exception of depreciation—to adopt uniform accounting methods as prescribed for class 1 railroads in the United States; and in view of the fact that so much publicity has been given, and oftentimes adversely to the Canadian National Railways, it has been the firm conviction in our mind that the accounts of all railroads in Canada should be presented to the public on the one basis so that when comparing performances in references in the public press they at least will be considering computations made on the same basis. Our thought was that the railways of Canada are sufficiently important to ask the consideration of parliament to the establishment of a basis of preparation of information to the people of Canada about these railroads that would be read not only in Canada but in the United States and Great Britain, on a basis that would at least be accurate in comparison. That is the underlying reason for our suggestion on this matter. For several years past, as a matter of fact in our reports of 1934, 1933 and 1935, we went into considerable detail on this matter, but in recent years we have been content to make a short reference to the matter. If the committee were interested we would be very glad to get our report on that in 1934 and read the detailed analysis in that of this situation which we made at that time.

Mr. JACKMAN: So that I take it, Mr. Chairman, that this paragraph simply refers to a different method or more uniform method at least of stating what has actually taken place in regard to charges to operations during the year rather than what is more substantial; namely, the inclusion of items in the operating expenses which are not presently there.

Mr. MATTHEWS: Well, we have no knowledge of the Canadian Pacific accounts. We have some knowledge of the Canadian National accounts. We do know that for years there has been a great deal of misrepresentation, or misunderstanding, and it has some of its root in the fact that the Canadian National have chosen to adopt a standardized method of presenting its accounts. That method is one that has been adopted, as I say, by the United States Class 1 roads. It is not perfect but it is the result of the study of railroad executives in the country over a good number of years, and as such we think it has merit; but the principal difficulty is that the Canadian National has not tied itself down to a recognized and standardized method of accounting, but in Canada there is need for a common interpretation of what constitutes operating performance.

Mr. JACKMAN: I notice this year that for the first time the Canadian National have been setting up an item of depreciation on rolling stock—not only because of the increased traffic and the fact that requirements of rolling stock are not advisable on account of the immediate need for cars—that mention is made that it is now in conformity with the I.C.C. practice; is everything else with regard to accounting in the Canadian National system in conformity with the I.C.C. regulations?

Mr. MATTHEWS: Depreciation was the one exception, sir. There are no other differences of importance. The I.C.C. in setting out their security set out the securities held and against that the company securities indented—they do not indicate the amount of depreciation under each.

Mr. JACKMAN: As far as arriving at the net income or losses for the year all the charges made under the I.C.C. regulations are made in our system?

Mr. MATTHEWS: Yes, and as such, Mr. Jackman, each year we have made clear that depreciation was the principal matter of difference between the two.

Mr. JACKMAN: I notice you say in the following paragraph: "In respect of current maintenance policy we have received certificates from the president to the effect that the properties and equipment of the National system have been maintained in a proper state of repair and in an efficient operating condition during the year 1940." Would you say that the maintenance of the property was quite adequate to maintain the original capital cost of the equipment on the books which you have not depreciated?

Mr. MATTHEWS: Yes; as far as the bad order equipment is concerned, at the end of 1940 the relative position of the Canadian National to class 1 roads of the United States is very satisfactory. In fact the bad order equipment in the main of the Canadian National Railways shows a better ratio than class 1 roads of the United States on the same date.

The CHAIRMAN: I do not believe we ought to pursue this too far at the present time, because we will have the opportunity when Mr. Matthews is before the committee with his full report.

Mr. JACKMAN: We can leave it now.

The CHAIRMAN: If we can get this report off our hands now we will proceed with the auditors' report.

Mr. JACKMAN: All right.

The CHAIRMAN: I should like to ask Mr. Matthews one question myself before we leave the subject. Did I understand you are recommending a uniform system of accounting for the two Canadian railroads as specified by the government? Is that the idea?

Mr. MATTHEWS: Yes, Mr. Chairman, having in mind the general position of the roads in the United States to the Interstate Commerce Commission which in effect is a branch of government, and as such the railway operating statistics in the United States are uniform between roads. So that in Canada it has always appeared to be very necessary in view of the great publicity that is given in this country between these two properties, at least they should be on a basis that represents a standard comparison.

Mr. POULIOT: Here is the C.P.R. report of last year. Can you point out—

The CHAIRMAN: We will come to this report a little later on.

Mr. POULIOT: I should like to ask Mr. Matthews to specify the difference in the accounting of the C.N.R. and the C.P.R. reports.

Mr. MATTHEWS: Take a look at the balance sheet. I do not need to say anything about that. You can look at the balance sheet yourself. They have their own method of accounting and we have nothing to say about that. We are simply looking at this thing from the point of view of the Canadian

National Railways in its relationship to public information. The investment of moneys in this property is held in the United States and in Great Britain. This is of minor importance to the capital revision, but the capital revision has a fundamental purpose, because of the very fact of a billion and a half dollars debt added to the net debt of this country and published in the investment circles of the United States and London. In a sense when comparisons are being made we have the same general thought in mind, that they should be made on a proper basis.

Mr. POULIOT: Are you making that suggestion only from the point of view of the impression that is being made on the public or are you making it also from the point of view of embarrassment which the railways may face when they have adjustments to make in certain transactions between themselves?

Mr. MATTHEWS: Oh, I do not think so. No, I am only thinking of—

Mr. POULIOT: Of the general impression on the public?

Mr. MATTHEWS: Of the general impression on the public, the desirability in our opinion of the government considering the putting of the railways in Canada on the same basis as the railways of the United States are with regard to the Interstate Commerce Commission.

Mr. POULIOT: To make the people better understand the position of the railways?

Mr. MATTHEWS: Yes, that is right.

Mr. JACKMAN: May I address another question to Mr. Matthews?

The CHAIRMAN: Yes.

Mr. JACKMAN: You feel then the I.C.C. system of railway accounting is superior for our conditions anyway to that which obtains in the Old Country, because you said the C.P.R. tends to follow the British practice rather than the American?

Mr. MATTHEWS: Well, Mr. Jackman, I would not be one to offer any opinion on the superiority of the British as against the American or vice versa. I am simply stating to you the fact that we live on this side of the ocean. The Canadian National adopted the practice of the United States railways; and it must be borne in mind that the railroads are not in Great Britain. The railroads belonging to this property are in the United States; and that was the beginning of the need of uniform accounting in the Canadian National Railways. It was done on account of the Grand Trunk Western lines.

Mr. JACKMAN: In other words there is more sense in adjusting our accounting system—

Mr. MATTHEWS: More practical.

Mr. JACKMAN: —to the American than to the British.

Mr. MATTHEWS: Yes.

Mr. ROSS: More intimate connections.

Mr. MATTHEWS: There is no connection between our operations in this country and operations in Great Britain. They are all on a different basis, and I would not wish to make any comparison because their system must be good. They have been in the railroad business a long time.

Mr. POULIOT: To satisfy me, Mr. Jackman, will you please tell me what you mean by I.C.C. Commission?

Mr. JACKMAN: Interstate Commerce Commission.

The CHAIRMAN: I think we will proceed, gentlemen, because we have to get through with this some time this spring.

Mr. JACKMAN: Before you pass from the consolidated income account may I refer to the following paragraph on page 6 under the heading of finance, "No security issues fell due for retirement during the year other than the

normal annual payments of principal under equipment trust, sinking fund and serial issues, which totalled \$8,548,182. This amount was financed through temporary loans from the government." Is there any item in this consolidated income account which shows the charge for that particular equipment during the year 1940? In other words this is a serial plan, I take it, or a sinking fund plan of some sort. Where, if you have any at all, is the charge for that equipment which was retired by advances from the government in the expenses attributable to the year 1940?

Mr. COOPER: This, of course, is purely a financial transaction. We are paying off funded debt and repayment of funded debt has no effect on the income statement as such. It is simply a reduction of the funded debt liability account. If it is in your mind, for instance, that these annual instalments represent an annual charge to the operations for the wearing out of the equipment against which they were issued then I think your idea is wrong. The charge to operations with respect to the wearing out of the equipment itself is taken care of by the charge for depreciation.

Mr. JACKMAN: So that I can be clear in my mind that you did not get the use of these cars that were paid for by the dominion government. You did not get the use of them for nothing without charging the current operations in 1940 for the prorated amount of use you made of them?

Mr. COOPER: You can be quite sure in your mind on that, Mr. Jackman.

The CHAIRMAN: Let us continue with page 14.

OPERATING REVENUES

	Year 1940	Year 1939
Freight	\$191,433,308 13	\$158,309,025 45
Maritime rates reduction	3,128,900 71	1,946,064 65
Passenger	21,702,046 30	17,817,119 48
Excess baggage	71,067 56	72,419 23
Sleeping car	1,315,664 53	1,118,662 63
Parlour and chair car	148,618 43	139,184 04
Mail	3,584,159 20	3,559,419 65
Railway express agency	504,320 48	342,041 93
Express	13,602,893 29	9,616,999 16
Other passenger train	40,574 61	44,908 71
Milk	283,245 17	300,846 45
Switching	2,468,369 60	2,220,643 57
Water transfers—freight	126,683 27	75,187 60
Water transfers—passenger	23,887 41	22,674 07
Water transfers—vehicles and live stock	42,580 50	39,737 50
Water transfers—other	2 85	2 90
Dining and buffet	1,141,737 39	798,034 69
Restaurants	16,102 30	13,722 80
Station, train, and boat privileges	110,281 66	92,788 20
Parcel room	38,232 49	32,897 55
Storage—freight	139,220 48	141,231 90
Storage—baggage	16,762 43	14,244 74
Demurrage	427,462 85	244,597 91
Telegraph and telephone	10,345 23	10,135 37
Telegraph—commercial	4,427,843 91	4,302,997 74
Grain elevator	286,611 44	93,432 46
Rents of buildings and other property	449,968 29	441,537 00
Miscellaneous	1,660,500 72	1,654,070 75
Joint facility—credit	409,006 51	415,014 19
Joint facility—debit	83,172 93	59,455 70
	<hr/> \$247,527,224 81	<hr/> \$203,820,186 62

SUMMARY OF OPERATING EXPENSES

	Year 1940	Year 1939
Maintenance of way and structures	\$ 40,002,420 65	\$ 36,530,434 24
Maintenance of equipment	48,126,387 67	42,662,023 70
Traffic	5,148,990 90	5,175,594 62
Transportation	98,660,172 14	88,840,663 85
Miscellaneous operations	1,646,918 99	1,298,214 56
General	9,317,273 07	8,971,891 88
Transportation for investment—credit	382,350 54	513,054 67
	<hr/> \$202,519,812 88	<hr/> \$182,965,768 18

Mr. NICHOLSON: Mr. Chairman, in connection with page 14 I notice under operating revenue an amount shown of the revenue derived from freight, passenger, sleeping cars, parlour chair cars, dining cars, etc. There is no breakdown showing the operating expenses with regard thereto. I wondered if we could have a corresponding item showing the expenses in these different departments. Could we have a statement showing the operating expenses in connection with freight?

Mr. COOPER: No, we could not give you that. The operating expenses of the railway are broken down under the headings you see immediately underneath the operating revenue detail. The total operating expenses are broken down into maintenance of way and structures, maintenance of equipment, traffic, etc. That represents the cost of maintaining the road, etc. In connection with sleeping car operation—

Mr. NICHOLSON: Have you any idea what it costs to operate your sleeping cars?

Mr. COOPER: Yes. The cost of the service you will find on page 16.

Mr. NICHOLSON: You have no statement showing the cost of freight service?

Mr. COOPER: No.

Mr. NICHOLSON: Or passenger.

Mr. COOPER: Take the renewal of the track itself. Can you suggest any way in which the cost of repairing the rails, ties, etc., would be broken down as to freight and passenger service?

Mr. ROSS: How do you arrive at your general freight structure, the cost of moving a ton of freight a mile?

Mr. COOPER: It is quite impossible. The Interstate Commerce Commission did prescribe a formula for the separation of expenses between freight and passenger service. It is a conglomeration of per cents of this and that; it does not mean a thing when you have done it. For a number of years we spent a lot of money working out the cost of our freight and passenger service according to the formula and when we had done it we had nothing except an addition to the red ink figure in income statement.

The CHAIRMAN: If you will let us get on with the items you will find them all particularized a little further on.

Mr. JACKMAN: I think we might refer the honourable member to a library of books on freight rates and costs. You cannot have a costing system that would tell you that, if I understand it at all.

Mr. HAZEN: Do your figures show how many pounds of mail you haul?

Mr. COOPER: No. I believe the payment for mail, as Mr. Coolican said yesterday, is on the basis of space.

The CHAIRMAN: Are you through with operating revenue?

Mr. NICHOLSON: I cannot find the item on sleeping cars, mentioned on page 17.

The CHAIRMAN: Dining and buffet service.

Mr. NICHOLSON: Have you any way of knowing whether your sleeping car service operates at a loss or a profit?

Mr. ARMSTRONG: You can get at certain direct expenses for the operation of sleeping cars. They are shown on page 16, about two-thirds of the way down, transportation expenses—operating sleeping cars. Those are certain expense directly attributable to the operation of the cars,—the porters, supplies, laundry, and all other such items; in the same manner the dining-buffet service is shown at the top of page 17. That is the cost of food, waiters, linen, cutlery, etc., directly attributable expenses. It does not include the cost of hauling the cars or car repairs, interest on the investment, depreciation, or anything like that.

Mr. POULIOT: Who prints this report? Is it printed by the King's Printer or some printing firm in Montreal?

Mr. COOPER: Mr. Thompson can answer that question. I do not know who printed the report.

Mr. THOMPSON: It was printed commercially on tender through our stationery department.

Mr. POULIOT: That is all right.

The CHAIRMAN: Summary of operating expenses. Do you want to consider anything there? It is on page 14.

Mr. NICHOLSON: With regard to that item on superintendents, have you any idea of the monthly cost of providing private cars?

Mr. COOPER: I am afraid I could not give you that.

Mr. NICHOLSON: Have you no estimate on that?

Mr. ARMSTRONG: I do not think there are any figures kept. You are speaking of the cost of the superintendents' cars?

Mr. NICHOLSON: Yes.

Mr. ARMSTRONG: We could find the cost of supplies and linen and various other supplies in the cars; the cost of hauling and repairing them would not be kept separate.

Mr. NICHOLSON: It is not included in this item?

Mr. ARMSTRONG: It is included in "superintendence."

Mr. POULIOT: Has each superintendent and each general superintendent a car?

Mr. ARMSTRONG: That is practically correct. There are a few exceptions where superintendents have not got cars.

Mr. NICHOLSON: How many private cars are operated?

Mr. ARMSTRONG: There are 64 business cars shown under work equipment on page 26.

Mr. NICHOLSON: Have you an estimate as to what savings might be effected by reducing the number of these cars?

Mr. ARMSTRONG: It might not be a saving, it might be an increase in expense. As a matter of fact, the cars are operated for good and sufficient reasons.

Mr. NICHOLSON: How do you estimate that there might be an additional expense?

Mr. ARMSTRONG: The railway must be supervised. In the judgment of the management this is the best way to do it—that is to supply the general superintendents and the superintendent with business cars. After all, these are the superintendents' and general superintendents' offices when they are on the road.

Mr. POULIOT: How many general superintendents are there?

Mr. ARMSTRONG: There are eight general superintendents, four on the western region and four on the central region.

Mr. POULIOT: Do you think it is indispensable to have them? Is it not a kind of senate for the old employees?

Mr. ARMSTRONG: Railroads generally find that this is the best method for carrying on operations.

Mr. POULIOT: Is it because superintendents cannot be relied on by the management? Are there general superintendents there to cover certain deficiencies or something like that?

Mr. ARMSTRONG: I doubt that; it is similar to an army organization where they have a major looking after several captains and the captain looking after several lieutenants.

Mr. POULIOT: And it might be the same as in that case, just red tape.

Mr. MAYBANK: Of course, it is useful to have as many superintendents as possible in order to give the men somebody to swear at.

Mr. POULIOT: What is the purpose of the superintendents? I can conceive that it is the same thing as the superintendents of engineers that are disappearing gradually here in Ottawa. That was established a few years ago, and the people are there and they are very difficult of access and they are very important and very haughty. That is my experience with them. There was one in Quebec who was declared sick and he stayed three or four years before being superannuated. He was a perfect nonentity, and there is another one there who is impossible to deal with to settle some problems. I hear they are the fifth wheel of the car. That is my opinion of them after careful consideration, and if this useless expenditure were cut it would be a great saving for the railway.

The CHAIRMAN: It would be quite a saving if we did not have to pay any salaries at all.

Mr. POULIOT: What is the cost of these eight general superintendents and their staff?

Mr. HUNGERFORD: May I say a word in regard to this question: our organization of officers and our practice in regard to business cars is almost identical with that of the Canadian Pacific Railway and all other railways that operate under similar conditions. It is a practice that has been developed through experience over a long period of time.

Mr. POULIOT: I do not want the C.N.R. to follow the practice of any other railway, I want the C.N.R. to be a better system than any other railway.

Mr. HUNGERFORD: We think we have as fine an organization now and as good a system as can be produced.

Mr. POULIOT: I do not deny that, but I suggest something to improve it. There is another matter also which I cannot understand and it has regard to the Quebec division or region. The Quebec general superintendent is under Toronto and part of our division is in the Atlantic region and therefore we have to deal both ways; in fact, I prefer to be under Toronto and have nothing to do with Moncton.

Mr. McCULLOCH: I might say that our superintendent down in the Atlantic division is one of the busiest men in the maritime provinces; I refer to Mr. Appleton.

Mr. POULIOT: I agree with you, but he is the only one.

Mr. McCULLOCH: He is a man who is working 15 to 18 hours a day.

Mr. POULIOT: You may say the best for Mr. Appleton that you can think of and I will agree with you, but unfortunately he is the only one.

Mr. HUNGERFORD: I disagree with you, and I know something of this matter.

Mr. HAZEN: Mr. Pouliot asked a question as to what were the salaries of these gentlemen.

Mr. POULIOT: I would like to know their salaries if possible.

Mr. ARMSTRONG: We have not got them here; they are not available here.

Mr. POULIOT: Are they better paid than the superintendents?

Mr. ARMSTRONG: Yes.

Mr. POULIOT: Just to recognize the importance of the position.

Mr. ARMSTRONG: After all, a general superintendent has a territory which usually includes about three or four divisions. He centralizes the authority of the three or four divisions in a district, similarly to an army corps organization.

Mr. POULIOT: Yes, I know.

Mr. EMMERSON: You say there are four general superintendents in the western division?

Mr. ARMSTRONG: Four in the western division and four in the central region.

Mr. EMMERSON: That is eight in all.

Mr. ARMSTRONG: The Atlantic region has no general superintendent; there is a general manager.

Mr. POULIOT: And the division carries on just the same.

Mr. ARMSTRONG: Yes, very well.

Mr. POULIOT: Where are these men located?

Mr. ARMSTRONG: General superintendents are at Vancouver, Edmonton, Saskatoon, Winnipeg; then coming down into Ontario and Quebec; North Bay, Toronto, Montreal and Quebec. There is one at each of those places.

Mr. POULIOT: Now, Mr. Armstrong, is there not a lot of duplication of files on account of the fact that there is a general superintendent in each of these places?

Mr. HUNGERFORD: No, there is not.

Mr. POULIOT: How can he look after the business of the division if there is no duplication of files?

Mr. ARMSTRONG: I do not quite get the question.

Mr. POULIOT: According to what was said, the general superintendent has jurisdiction over two or three divisions, and then in order to be useful he must know what is going on.

Mr. ARMSTRONG: That is true.

Mr. POULIOT: And if there is no duplication of files as Mr. President has stated how can he know what is going on?

Mr. ARMSTRONG: It depends what you mean by duplication of files. If the superintendent writes a letter to the general superintendent naturally each one will have a file on that subject.

Mr. POULIOT: He submits the whole file to the general superintendent?

Mr. ARMSTRONG: He may send his whole file, yes. If the general superintendent rules upon that particular subject, naturally there is a letter sent back to the superintendent. On the other hand it may go further up and it may be a subject which necessarily must be taken up with the general manager. There is, in that sense, a duplication of files.

Mr. POULIOT: And is it not to your knowledge that most of the time people pass over the general superintendent and get into touch direct with the management?

Mr. ARMSTRONG: I am not aware of it.

Mr. POULIOT: Therefore, the road must be followed and there should be a stop at the general superintendent before reaching the management?

Mr. ARMSTRONG: Naturally, that is correct.

Mr. POULIOT: It is a necessary stop, is it?

Mr. ARMSTRONG: Yes.

Mr. POULIOT: And the general superintendent is like Mr. Foran of the Civil Service Commission—when he says no it does not go any further?

Mr. ARMSTRONG: No, it is similar again to the army organization; the private does not talk to the general, on official business anyway.

Mr. POULIOT: Well, yes, but have you got corporals and sergeants and lieutenants and captains?

Mr. ARMSTRONG: I would say we have parallels to those in the railway.

Mr. POULIOT: And have you got lieutenant colonels and colonels? What is the comparison between the army and railway anyway?

Mr. ARMSTRONG: There is a great similarity between the organization of the army and of the railroad.

Mr. POULIOT: It is not exactly similar.

Mr. MAYBANK: Oh, no.

Mr. ARMSTRONG: Naturally, no.

Mr. POULIOT: Now, how many erecting shops are there in the system?

Mr. ARMSTRONG: Are you speaking particularly of the locomotive erecting shop?

Mr. POULIOT: Yes.

Mr. ARMSTRONG: Moncton would be the one farthest east; Riviere du Loup has a small shop; there is Point St. Charles in Montreal; Stratford; London is a car shop; Winnipeg (Transcona) and Fort Rouge.

Mr. POULIOT: There is Edmonton, and Port Mann in British Columbia.

Mr. ARMSTRONG: Port Mann is a small shop.

Mr. POULIOT: And there is one at Edmonton.

Mr. ARMSTRONG: It is a small shop also.

Mr. POULIOT: Which is the oldest?

Mr. ARMSTRONG: The oldest shop?

Mr. POULIOT: Yes.

Mr. HUNGERFORD: I suppose Point St. Charles would be the oldest.

Mr. POULIOT: And then Riviere du Loup would be next because it was the terminal of the Grand Trunk Railway.

Mr. ARMSTRONG: Stratford would be fairly old. I am not certain whether it would be older than Riviere du Loup or not.

Mr. POULIOT: But they are the three oldest?

Mr. ARMSTRONG: Yes, they are the three oldest.

Mr. POULIOT: And Riviere du Loup does more business than Edmonton or Port Mann, does it not?

Mr. HUNGERFORD: No, I would not say that.

Mr. ARMSTRONG: Do you mean more business in a traffic sense or in the handling of locomotives?

Mr. POULIOT: I have a letter here to that effect; I can give you figures.

Mr. ARMSTRONG: Would you like the number of locomotives handled or the traffic from the points you are speaking of?

Mr. POULIOT: I am speaking of the business handled by the shops.

Mr. ARMSTRONG: By the shops? In other words, the number of locomotives which actually go through the shops?

Mr. POULIOT: Yes.

Mr. ARMSTRONG: We can supply those figures.

Mr. POULIOT: Now, there is another point which I would like to have answered. Does the element of distance enter into the calculation of repair costs?

Mr. ARMSTRONG: I am sorry, I do not quite get your question—the element of distance?

Mr. POULIOT: Yes, suppose it is found in one case that a locomotive needs some repairs, would it be repaired at the nearest shop or would it be sent somewhere else for repairs?

Mr. ARMSTRONG: It will depend entirely upon the type of repair required. It might be a repair which could be made in the engine house or it might be a repair which would have to go to a main shop.

Mr. POULIOT: And who decides upon that?

Mr. ARMSTRONG: The motive power department.

Mr. POULIOT: Is it not true, Mr. Armstrong, to your knowledge, that when some one makes a complaint against an employee or an official of the railway the complaint is always found unfounded?

Mr. ARMSTRONG: Not always but generally so.

Mr. MAYBANK: As indeed the truth is.

Mr. ARMSTRONG: Depending on what the truth is.

Mr. POULIOT: That is a correction which comes quite late, Mr. Armstrong.

The CHAIRMAN: Are you through with Maintenance of Way and Structures Expenses? If so, we will proceed to Maintenance of Equipment Expenses.

Mr. MAYBANK: There is just this general question relative to equipment which I should like to ask. "Is it a fact that you have your equipment now pretty well in operation all the time; that you have not a great deal of spare equipment any more?"

Mr. HUNGERFORD: That is quite true, Mr. Maybank.

Mr. MAYBANK: You are using 100 per cent, of nearly so?

Mr. HUNGERFORD: It is fairly difficult to put it on a percentage basis, but we could handle a little more business with the equipment we now have.

Mr. JACKMAN: Do capital improvements come under "Maintenance of Way and Structures Expenses" or is that item all maintenance?

Mr. COOPER: All maintenance with the exception of betterments which are less than \$500.

Mr. MAYBANK: If it is so that you could handle, as you say, just a little more business, Mr. Hungerford, would it not appear that the railroad is due to get a great deal more business in the coming year? Would not that be your forecast of the coming year?

Mr. HUNGERFORD: I am sorry I did not follow you, Mr. Maybank?

Mr. MAYBANK: Would you not suppose, endeavouring to forecast the business of the railway for the coming year, that you will receive not merely a little more business but that there will probably be a great increase?

Mr. HUNGERFORD: I am speaking of the capacity of the present equipment and the present spread of traffic. That has a great deal to do with the ultimate result. We anticipate more business this year.

Mr. MAYBANK: You do anticipate more?

Mr. HUNGERFORD: Yes, and we have more equipment on order at the present time.

Mr. MAYBANK: That is what I was getting at. You were indicating that with the present equipment you could handle a little more business but that you have most of it in use?

Mr. HUNGERFORD: We have additional equipment on order now.

Mr. MAYBANK: You are taking steps to increase your equipment?

Mr. HUNGERFORD: With our increased capacity at the present time and the new equipment that will be delivered we expect to be able to handle the business available.

Mr. McCULLOCH: What new equipment will you acquire this year?

Mr. HUNGERFORD: Cars and locomotives.

Mr. ARMSTRONG: I will read them off to you:

125 ore cars,
100 refrigerator cars,
250 hopper cars,
200 flat cars,
150 hart cars,
25 coaches,
7 steel mail and baggage cars,
28 second-hand coaches.

Those are for Canada.

Mr. CHAIRMAN: The minister says we will get this with the budget.

Mr. HUNGERFORD: It will all appear in the budget.

Mr. ROSS: Under "Depreciation—U.S. Lines only" I see, Mr. Chairman, there is an item of one million and a half. It is not shown in the 1940 report. The one million and a half is shown under "Depreciation—United States Lines only" in the 1939 report. There is an item here of over eleven million dollars. Would that cover the whole?

Mr. COOPER: Yes. In 1939 there was only accrued depreciation on the equipment owned by the United States Lines, but in 1940 we adopted depreciation accounting for the entire system.

Mr. ROSS: And you have that spread across?

Mr. COOPER: Yes.

Mr. ROSS: It was shown in 1939.

Mr. COOPER: Yes, because in 1939 depreciation applied only to the United States; therefore we specified it so that it would not be mistaken.

Mr. NICHOLSON: What information can we get regarding the difference in the operating expenses that result from the small amount of grain likely to be moved from the three prairie provinces this fall?

Mr. ARMSTRONG: We have the budget which is to come up, on what the results of operations will be for the next year. The revenues and expenses are stated in that budget for 1941.

Mr. JACKMAN: What would be an estimate of the amount of rolling stock retirements that would have taken place had the traffic demand not necessitated keeping them in operation during 1940?

Mr. ARMSTRONG: That would depend entirely on whether the cars should or should not be retired.

Mr. JACKMAN: But we have so many passing out of useful service each year. What I am getting at is whether or not the eleven million odd which you set up for depreciation of rolling stock would more than offset the capital retirement on rolling stock had the traffic demand not necessitated keeping them in operation.

Mr. COOPER: Yes. In 1941 it would exceed the physical retirement by something like six million dollars.

Mr. JACKMAN: Almost double the reserve?

Mr. COOPER: Yes.

Mr. POULIOT: Mr. Chairman, is it permissible for a railway employee, either under his name or under the name of his wife, to carry on some business as manager of an oil company and keep his position just the same in the railway?

Mr. ARMSTRONG: Could you give a specific case of what you mean?

Mr. POULIOT: There is a man who is working as a crane man.

Mr. ARMSTRONG: Train man?

Mr. POULIOT: Crane man, and he is carrying on business as manager for one of the big oil companies under the name of his wife. It is known that he is doing it himself and he is making lots of money. On the other hand, another man could not be employed on the railway because he was working part time in a little barber shop which he had. The one who had the little barber shop and who was working part time had his name cancelled, while the other one who carries on a big, profitable business is at the same time working as a crane man.

Mr. HUNGERFORD: We will be glad to look into the situation if you will give us the particulars, Mr. Pouliot.

Mr. POULIOT: Thank you. There is another case also which I should like to bring to your attention. This is the case of a man who suffers from neurasthenia after having received a piece of steel in his head. The men are afraid to work with him and while there have been representations made by the union he has not been awarded his pension. On the other hand, there is a man who is well. His doctor certifies that he is well, but he cannot be employed because the railway doctors say that he is sick. It is just the reverse of the former case. I should like to bring these two cases to the attention of the management in due course. One is sick but is receiving no pension. The other is well but he cannot be employed.

Mr. HUNGERFORD: Again, I say, Mr. Pouliot, that if you will be good enough to give us the particulars we will look into those cases.

Mr. EMMERSON: The item of "Protective Services" under Maintenance of Way and Structures Expenses represents expenditures incurred for guarding railway property?

Mr. COOPER: Yes, sir.

Mr. EMMERSON: There has been quite an increase over 1939. Does that mean that the railway has had to take over the protection of bridges or certain properties formerly protected by national defence?

Mr. COOPER: The main reason for the increase would be that in 1940 we had a full year of war, while in 1939 we were only in the war from September.

The CHAIRMAN: We are supposed to be on page 17—General Expenses. Is there any discussion?

Mr. POULIOT: Who are the general officers mentioned there? Are they the Montreal officers?

The CHAIRMAN: This includes general office supplies.

Mr. POULIOT: That is all right, thank you.

The CHAIRMAN: Page 18?

Mr. JACKMAN: The amount you had to put into pensions was \$4,468,736.66 in one year. That is a lot of money.

Mr. MAYBANK: Just before leaving that part, what is the general position with reference to the request for wage improvements that are going on? What is the general position at the moment with regard to that?

Mr. ARMSTRONG: It is now before boards of conciliation. You refer to the cost of living bonus?

Mr. MAYBANK: Yes.

Mr. ARMSTRONG: Boards of conciliation are now sitting on that matter.

Mr. MAYBANK: How much of a personnel does that involve? I do not mean in numbers, but does it involve all of the trade unions of the railway, or are some of them not represented?

Mr. HUNGERFORD: I think it includes all of them, Mr. Maybank. Of course, they are in two groups. There is the so-called A.F. of L. group, which is much the larger of the two.

Mr. MAYBANK: But they are all in there together?

Mr. ARMSTRONG: They are not together, sir.

Mr. HUNGERFORD: The running trades, shop men, and all of those groups come under a conciliation board that also applies to the Canadian Pacific and, I think, some other Canadian railways as well. The C.B. of R.E. group is limited to the Canadian National and there is another board for that.

Mr. MAYBANK: That would leave out, then, most of what are called the white-collar office men. They are not in that.

Mr. HUNGERFORD: All of the organized employees are, yes.

Mr. MAYBANK: But a comparative number of them; in fact, most of them are not organized, are they?

Mr. HUNGERFORD: I would say a large portion of them are organized?

Mr. NICHOLSON: Including station agents?

Mr. ARMSTRONG: Yes; station agents.

The CHAIRMAN: Is there any discussion on Property Investment account?

Mr. EMMERSON: Where was that double-tracking done?

Mr. ARMSTRONG: That was a section of track out of Truro and another section of track west of Moncton. The double track was extended west of Moncton a few miles and east of Truro.

Mr. EMMERSON: It is all on the Atlantic region?

Mr. ARMSTRONG: It is all on the Atlantic region, yes.

Mr. POULIOT: What is the average cost per mile of double-tracking approximately?

Mr. ARMSTRONG: It would depend a great deal upon the physical characteristics of the line. We can give you the mileage here that was double-tracked and perhaps that would give you the average cost, if that would be satisfactory?

Mr. POULIOT: What was the distance of the double track?

Mr. ARMSTRONG: It was a short distance, Mr. Pouliot. I think it was two miles west of Moncton and about another two miles east of Truro.

Mr. HUNGERFORD: It was more than that, I imagine. It was about three or four miles.

Mr. NICHOLSON: How much more is going to be required in this Montreal Terminal Development Project?

Mr. ARMSTRONG: We will come to that in the budget for 1941.

Mr. NICHOLSON: I was wondering whether this work might be discontinued or whether it is necessary.

The CHAIRMAN: We ought to take it up in its proper place.

Mr. POULIOT: There is an item for that in the budget.

Mr. JACKMAN: Yes. But the budget has to do with the future. Some members might be interested in what has gone on in the past and just where this money has been used and just what the usefulness of the particular item is. The first question I should like to ask is with regard to the amount spent. Last year you spent \$3,599,076 on the Montreal Terminal. Was the proposal or the authorization of that by the Board of Directors unanimous?

Mr. HUNGERFORD: Yes.

Mr. JACKMAN: I take it the answer is "yes"?

Mr. HUNGERFORD: Yes.

Mr. JACKMAN: How much has been spent to date including the \$3,599,076 during 1940?

Mr. ARMSTRONG: I will give you 1939, 1940 and 1941 if you would like those figures.

Mr. JACKMAN: That starts at the beginning?

Mr. ARMSTRONG: Beginning with the reopening on the basis of the modified plan. In the first year, 1939, the figure was \$2,950,130; in 1940 it was \$4,321,863.

Mr. JACKMAN: That differs from the report.

Mr. ARMSTRONG: In the report I think you will find it is a lesser amount, the capital sum only, the amount chargeable to capital. The figures I am giving you represent the total expenses in connection with the work.

Mr. JACKMAN: Will you give me that again, please?

Mr. ARMSTRONG: \$4,321,863. The other figure you have is \$3,599,076. Is that correct?

Mr. JACKMAN: Yes.

Mr. ARMSTRONG: In 1941, to the end of April, \$911,411.

Mr. ROSS: To the end of April?

Mr. ARMSTRONG: The end of April, 1941.

Mr. NICHOLSON: In connection with the 1939 figure, you mentioned it was from the commencement of the modified plan?

Mr. ARMSTRONG: Yes.

Mr. NICHOLSON: What was the expenditure before that date?

Mr. ARMSTRONG: The expenditure before that date was \$16,651,346.

Mr. NICHOLSON: That brings the total to the end of April of this year at what? Have you the total there?

Mr. ARMSTRONG: We have a total there of \$24,834,750.

Mr. NICHOLSON: And it is estimated it will require how much to complete the project?

Mr. ARMSTRONG: At the present time we have commitments, that is contracts; etc., which are to be completed, which total \$2,461,500.

Mr. NICHOLSON: Will that complete it?

Mr. ARMSTRONG: No. Completion of the plan will cost \$2,005,096; that is, the estimated cost of completion of the plan.

Mr. HAZEN: That is in addition to the \$2,461,000?

Mr. ARMSTRONG: Correct.

Mr. SANDERSON: You estimated the total cost. What is the total cost?

Mr. ARMSTRONG: When the terminal is completed?

Mr. SANDERSON: Yes.

Mr. ARMSTRONG: The total for all those figures together is \$29,301,000, which includes all of the expenditures since 1929.

Mr. MAYBANK: That is being pressed forward, is it? There is no slackening?

Mr. ARMSTRONG: There has been none.

Mr. MAYBANK: I beg your pardon?

Mr. ARMSTRONG: There has been none. The work is proceeding.

Mr. MAYBANK: Is any slackening contemplated?

Mr. ARMSTRONG: Not that I am aware of.

Mr. NICHOLSON: How many men would be engaged on the construction at the present time?

Mr. HUNGERFORD: It is impossible to state that.

Mr. NICHOLSON: Roughly?

Mr. HUNGERFORD: Because nearly all of the work is being done by contract and there is a fluctuating number of employees.

Mr. NICHOLSON: I mean just roughly. Give some rough estimate?

Mr. HUNGERFORD: I could not even give that, because practically all the work is under contract.

Mr. NICHOLSON: What amount of steel will be used in connection with the present work that is going on? Will there be much steel?

Mr. HUNGERFORD: Practically all the steel has been supplied. In order to give you that figure, it would require considerable calculation.

Mr. NICHOLSON: Could we have that information, I wonder? Could we have it placed on the record?

Mr. ARMSTRONG: The amount of steel that has been used?

Mr. NICHOLSON: That is being used in the present year, for example?

Mr. ARMSTRONG: Yes. The amount of steel to be erected this year?

Mr. NICHOLSON: Yes.

Mr. ARMSTRONG: It is practically all purchased, and nearly all erected.

Mr. JACKMAN: Is that contract for the building let to a general contractor or are you building it yourselves?

Mr. ARMSTRONG: The contract for the building—that is, including the station building, so called—has been let to a contractor.

Mr. HUNGERFORD: Provision of the steel work and its erection was let to one contractor; the completion of the building has been let to another contractor.

Mr. JACKMAN: You might not have the figures indicating the amount of United States exchange which was used to purchase the steel requirements in the United States.

Mr. HUNGERFORD: That is difficult to get, because the contractors were required to supply the steel and of course we have not very much information about that, though we could give you something.

Mr. ARMSTRONG: We made a rough shot at this. As Mr. Hungerford says, most of the steel was supplied by the contractors. About 25 per cent was American and about 75 per cent Canadian steel. The total expenditures were about \$1,200,000; and about \$250,000 of that was for American steel. Those are very rough figures because the work was under contract.

Mr. JACKMAN: You mean all the big I-beams and things you had to get from the United States only cost about \$250,000 for the whole project or is that during some particular year?

Mr. ARMSTRONG: No. That is since the reopening of the work.

The CHAIRMAN: When you are talking about Canadian steel, Mr. Armstrong, is that from Canadian ore or is it American ore that has been processed in Canada largely?

Mr. HUNGERFORD: It is largely American ore.

Mr. NICHOLSON: Suppose the work was stopped for the duration of the war. Would there be any serious difficulty in handling traffic in and out of Montreal during the war period and how much of this four and a half millions might be saved for the duration of the war?

Mr. HUNGERFORD: The completion of the terminal would assist materially in handling freight traffic—war freight traffic—through Montreal.

Mr. NICHOLSON: I did not hear that.

Mr. HUNGERFORD: I say the completion of the terminal will help materially in handling freight traffic through the city of Montreal.

Mr. NICHOLSON: My question was how serious a problem will there be if the terminal is not completed?

Mr. HUNGERFORD: Very serious, I would say.

Mr. MAYBANK: What is your estimate now as to the completion date?

Mr. HUNGERFORD: The completion date, did you say?

Mr. MAYBANK: Yes.

Mr. HUNGERFORD: One year from now.

Mr. MAYBANK: One year from now. You will be using the new set-up in a little more than a year from now?

Mr. HUNGERFORD: It will be completed entirely in just about one year from the present time. Some of the facilities will be available for use before that.

Mr. NICHOLSON: You estimate it will take nearly four and a half millions to complete that work. I asked what saving would there be if this work was not to proceed, or would there be any saving? Because of those commitments which have been undertaken would this four and a half millions have to be spent even though work were to stop at present?

Mr. ARMSTRONG: It is difficult to say what we would have to pay on those commitments. The \$2,000,000 to complete has not been contracted for; but with regard to the \$2,461,000, there are contracts outstanding and materials purchased and on the ground which have not been erected. Those materials are included in the commitments.

Mr. NICHOLSON: When were those commitments undertaken with regard to this \$2,400,000?

Mr. ARMSTRONG: Most of them in 1940; some of them in 1941.

The CHAIRMAN: You would have \$26,000,000 tied up in a useless enterprise if it were not completed now?

Mr. ARMSTRONG: That is right.

Mr. HANSON: All the contracts are let with the exception of approximately \$2,000,000?

Mr. ARMSTRONG: That is correct.

Mr. JACKMAN: If the capital expenditure account for 1940 shows \$3,599,000 and you have actually spent \$4,321,863, did you charge \$721,000 off to current operations?

Mr. ARMSTRONG: No, sir. The difference between those two figures is made up of these amounts: there is a contribution under unemployment relief of \$711,092.

Mr. HAZEN: A contribution under unemployment relief, did you say?

Mr. ARMSTRONG: Yes.

Mr. JACKMAN: That is during 1940?

Mr. ARMSTRONG: 1940. There was a grant of approximately one and a half million in 1939 and 1940, and that was the portion which applied to 1940. There was also an amount chargeable to operating expenses.

Mr. JACKMAN: What justification was there for that?

Mr. ARMSTRONG: That is replacement of trackage, which by correct book-keeping should not be capitalized. It is replacement of a track in kind—

Mr. JACKMAN: All right.

Mr. ARMSTRONG: —and in the opinion of the accounting department it should be charged to maintenance.

Mr. HUNGERFORD: That was a shifting or replacement of facilities that already existed before; and in doing that it would be properly chargeable to maintenance because you are not creating something new.

Mr. ARMSTRONG: You are merely moving something which already exists.

Mr. JACKMAN: But the change is necessitated by the new terminal. It is perhaps debatable. However, it is not very much. Did this unemployment relief contribution continue after the dominion had cut off unemployment relief contribution to the municipalities throughout Canada?

Mr. HUNGERFORD: No.

The CHAIRMAN: Is there anything further?

Mr. NICHOLSON: Mr. Chairman, in connection with this Montreal terminal again, may I ask if this terminal will be used by the Canadian Pacific?

Hon. Mr. CARDIN: No.

Mr. NICHOLSON: Not at all?

Hon. Mr. CARDIN: No.

Mr. HUNGERFORD: No.

Mr. NICHOLSON: Were any negotiations carried on with the C.P.R. about it?

The CHAIRMAN: Yes, there were.

Mr. NICHOLSON: With respect to using this? It seems to me a very large financial undertaking for our own railway.

Mr. HUNGERFORD: That subject was discussed off and on for a number of years.

Mr. HANSON: And discussed in this committee for a number of years too.

The CHAIRMAN: Every year.

Mr. HUNGERFORD: Every year.

Mr. JACKMAN: I guess the war, however, has become more serious since the last meeting of the committee. Is there a general plan of this terminal available showing exactly what facilities it will provide?

Mr. HUNGERFORD: Yes.

The CHAIRMAN: We had a plan here before us before it was decided on a few years ago.

Mr. NICHOLSON: This is a new committee.

Mr. JACKMAN: Is that the same as the modified plan?

Mr. HUNGERFORD: This is the modified plan.

Mr. ARMSTRONG: It was modified and work commenced early in 1939.

Mr. HUNGERFORD: May I say this for the information of the committee: this whole question was gone into in great detail by the committee two years ago and the proceedings will show all the statements that were made at the time. I am just throwing that out by way of information for those of you who may not have been on the committee that year. You would get a great deal of information from that source.

Mr. Ross: As I recall it, most of the statements were favourable as far as the committee were concerned.

Mr. HUNGERFORD: The general use of that station in Montreal is a very conflicting question. It cannot be answered in a few words.

Mr. Ross: No.

Mr. HUNGERFORD: It is an impractical thing from my point of view; that is, there was a proposal to go in to Windsor street. That from our point of view is impracticable for physical reasons. And the Canadian Pacific has not shown any disposition to join with us. I do not criticize them for that.

Mr. JACKMAN: How much of the station facilities are intended to be electrified?

Mr. HUNGERFORD: As to electrification, the line is already electrified from a point north of the mountain through the tunnel to the site of the station. That was done by Mackenzie and Mann years ago when they constructed the tunnel. We propose to electrify from there to the east end of Victoria Bridge, and also on the other line to Turcot; new electrification would amount possibly to four or four and one-half miles.

Mr. JACKMAN: Then I understand that this plan of the multiplied Montreal terminal was presented and is available?

Mr. ARMSTRONG: There are many plans. There was at the committee meeting a few years ago a very large plan—it was probably 20 feet by 10 feet—exhibited in the committee room, and that is available in Montreal to be seen by anybody who cares to look at it, as well as other detailed plans of various parts of the terminal.

Mr. JACKMAN: And that plan indicates all the trackage both into the station and out, and all the details of that description, showing how traffic is going to be handled?

Mr. ARMSTRONG: This large plan shows the various routes into the terminal, where the various lines now come in and where they would come in when the terminal is opened. There are other details of the lay-out of the station and other facilities. We could furnish you with a small scale map.

Mr. JACKMAN: It is in the head office at Montreal?

Mr. ARMSTRONG: The large one is, yes.

Mr. JACKMAN: There must be a small one.

Mr. HUNGERFORD: I think we can get you something on that.

Mr. JACKMAN: I can imagine that some smaller maps could be made up from it. You would be able to get me a small picture of that map, if you will?

Mr. ARMSTRONG: We could give you one—I do not know whether we have it here, but we could get you a copy which will show the various lines coming into the new terminal, if that is what you desire.

Mr. JACKMAN: Yes. I understand the terminal is not going to be as high a building as was originally contemplated.

Mr. ARMSTRONG: That is correct.

Mr. JACKMAN: I suppose the sub-structures, however, are sufficient to erect more super-structures if the need eventuates?

Mr. ARMSTRONG: Reasonably so, yes.

Mr. NICHOLSON: Mr. Chairman, \$4,500,000 would seem to me to be a lot of money to represent labour and material which to my mind might be used to better purpose in our war effort. Mr. Hungerford has stated that they are having difficulty in Montreal in handling the traffic. I think that traffic has been handled there for quite a long period of years, and for the duration of the war it might not cripple the railway very seriously.

Mr. HUNGERFORD: Oh yes, the volume of traffic going through Montreal at the present time—freight traffic—is very much greater than it has been for a long time.

Mr. NICHOLSON: What would be the amount of the wastage through lack of track facilities there at the present time?

Mr. HUNGERFORD: It can't be expressed in terms of loss, it has to be considered rather from the standpoint of the difficulty in handling traffic and in the facilities that are required for the additional traffic which is clearly inevitable.

Mr. MAYBANK: It would cost you more money the way it is now than it would cost when you have these facilities established?

Mr. HUNGERFORD: That is correct.

Mr. NICHOLSON: What I am trying to get at is this, have you any idea what the loss would be?

Mr. HUNGERFORD: It could not be put down in just that way. We have a memorandum here in regard to some of the advantages that will result from the early completion of the terminal, and perhaps if Mr. Armstrong read it, it would be helpful.

Mr. ARMSTRONG: It is relatively short. These are the reasons for the early completion of the terminal:—

Reasons for Early Completion

Necessity of removing passenger train service from Bonaventure Station to the new station at Dorchester Street, present facilities at Bonaventure being inadequate. The new terminal will give increased passenger station trackage and facilities; passenger traffic has been greatly increased by industrial and war activity.

Necessity of providing increased express and mail facilities to take care of traffic. The present facilities at Bonaventure are not adequate for efficient handling of express and mail. The facilities provided at the new terminal are adequate.

Necessity of enlarging the freight handling facilities, urgent for war traffic and to take care of the normal growth of business. The re-arrangement of facilities resulting from the opening of the new terminal will provide much needed additional trackage and other facilities for freight in the Bonaventure-Turcot area.

Necessity of placing in operation the new coach yard at Pointe St. Charles, (constructed as part of the terminal improvement). The present coach yard at St. Henry is too small to meet traffic requirements, necessitating the storage of a considerable number of the coaches elsewhere. Important improvements in freight and passenger switching will also result.

Necessity of further ameliorating the grade crossing situation between Bonaventure and Turcot, with respect to which there have been serious complaints for years. Eleven grade crossings have already been eliminated under the terminal plan and when passenger traffic is diverted to the new station nine other thoroughfares between Bonaventure and Turcot will cease to be affected by passenger train operation, thereby greatly relieving industrial and general street traffic.

Mr. NICHOLSON: I think those are reasons which are all perfectly valid in peace time, an expenditure of \$25,000,000 would naturally have to have arguments of that kind to back it up; but I have been into Montreal quite a few times and while the station facilities are not very attractive I do not think there is any serious difficulty when the war situation is as critical as it is.

Mr. HUNGERFORD: Speaking as a railway man, I can assure you there are many advantages.

Mr. ROSS: The time saving factor alone is the great factor in our war effort, because rolling stock will be made available far more rapidly than under the old plan.

Mr. NICHOLSON: I asked for an estimate of wastage owing to lack of trackage facilities, if there is serious wastage on account of congested traffic.

Mr. ARMSTRONG: These are very general reasons, it is quite true, but there are more specific ones; one, for instance, is regarding St. Henry, where at the present time all coaches using Bonaventure station must be turned, with the result that there is a great deal of congestion at that particular point. The new terminal would immediately remove that particular difficulty because the coaches will not need to be turned at that point. That is merely mentioned as one of the other reasons. They are covered generally in the memorandum. Now, I do not know how you would put an amount of money on that, it is rather a question of getting traffic to our ports—how much value is there in getting a carload of explosives to Halifax, or guns or something else of that kind. We do not know what the cost will be in relation to our war effort.

Mr. NICHOLSON: Have you any idea of the amount of time wasted at this Y?

Mr. ROSS: We are more interested in the amount of time saved than the amount of time wasted.

Mr. ARMSTRONG: It costs the Canadian National a certain amount of additional money, but that is not the principle reason for it; it is a question of the war effort and relieving that particular bottleneck, so to speak.

Mr. HANSON: We have to spend \$2,000,000 more to get the facilities they have been trying to get for the last four years.

Mr. POULIOT: You understand it is a dead asset until you can use it, and the sooner it is completed the sooner it will be available for war purposes.

The CHAIRMAN: Hear, hear.

Mr. JACKMAN: There seems to be great urgency about this thing. In answer to Mr. Maybank's question that the station would lower expenses, that is quite so. In regard to operating expenses, obviously if you spent \$29,000,000 it should have some useful effect on lowering your costs. I merely wished to point out that the saving which you mentioned, Mr. Armstrong, in your reply, refers to a saving from operations, and that does not necessarily bear any particular relationship to the capital cost of \$29,301,000 odd.

Mr. ARMSTRONG: I do not follow your argument there.

Mr. JACKMAN: The question by Mr. Maybank was, does this expense result in any saving; and the answer is, yes.

Mr. ARMSTRONG: Yes.

Mr. JACKMAN: My contention is that the result in saving in current operating expenses, which is the only way you can estimate your savings; have we found out anything as to whether or not that saving justifies the expenditure of \$29,301,000; particularly inasmuch as part of it is spent through a war policy.

Mr. MAYBANK: May I add to that that the problem of the moment is not whether you can make a saving bearing some relation to the \$27,000,000, but rather a question of using that \$27,000,000; that you should relate it to somewhere in the neighbourhood of \$4,000,000.

Mr. ARMSTRONG: That is the point.

Mr. MAYBANK: You are in the position of a man putting up an awful lot of money in a poker game and he needs only to put in another ten cents to get complete satisfaction.

Mr. CHAIRMAN: Any other questions? I think we have had about enough of this Montreal terminal, I have been hearing it for over ten or fifteen years now.

Mr. JACKMAN: Unfortunately, Mr. Chairman, I have been hearing of it more often than you do.

Mr. POULIOT: If we have heard enough why not pass the estimate right away?

The CHAIRMAN: I am very willing that we should pass that estimate right away.

Mr. JACKMAN: I think we should proceed in the usual manner, Mr. Chairman.

The CHAIRMAN: Let us go on with some other matter now.

Mr. HUNGERFORD: It might be well if we could finish this report.

The CHAIRMAN: Before we go any further I would like to bring to the attention of the committee the fact that we will have to sit this afternoon. Let us decide on the hour. Someone tells me that to-morrow is caucus day and we will not have the use of this room, and that ought to have some bearing on when we will sit this afternoon.

Mr. HANSON: Why not sit at 3:30?

Mr. NICHOLSON: Oh, make it 4:00 o'clock; we have been sitting at 4:00 o'clock.

The CHAIRMAN: We might as well get in the extra half hour if we can.

Mr. JACKMAN: We are not sitting this evening?

The CHAIRMAN: No.

Mr. JACKMAN: That is unanimous, I hope.

The CHAIRMAN: Let us get as much time in this afternoon as we can.

Mr. JACKMAN: Do you think we are going to get through to-day?

The CHAIRMAN: No, I am afraid not; but we should get through tomorrow if we get on well enough to-day.

Hon. Mr. CARDIN: We could sit in the afternoon to-morrow.

Mr. POULIOT: I understand the minister is going to make a statement on amalgamation in the house this afternoon.

Hon. Mr. CARDIN: Oh, well, you will be able to get that in the press or in some other way.

The CHAIRMAN: Is it agreed that we meet this afternoon at 3.30?

Agreed.

Then, we will decide about to-morrow this evening.

Mr. JACKMAN: Just one small matter, what attitude does the railway take in regard to enlisted men from the service; do you pay them the difference between army pay and their ordinary railway pay?

Mr. HUNGERFORD: No.

Mr. JACKMAN: You just give them leave of absence?

Mr. HUNGERFORD: Yes.

Mr. JACKMAN: Do you do anything for them?

Mr. HUNGERFORD: We have a special pension provision for them which does not cost them anything.

Mr. ROSS: Is seniority taken into account too?

Mr. HUNGERFORD: Yes.

Mr. MAYBANK: Do they keep their places?

Mr. HUNGERFORD: Their seniority is maintained and in addition to that we undertake to pay a special war pension while they are away, but we do not contribute the difference in pay.

Mr. POULIOT: Are they allowed to keep their passes when they enlist?

Mr. ARMSTRONG: They are. They keep their free transportation.

Mr. JACKMAN: Hear, hear.

Mr. MAYBANK: Any time the question comes up about free passes on the railroads for soldiers we know there are a certain number of men enlisted and they already have free passes.

Mr. ARMSTRONG: That is correct.

Mr. MAYBANK: The fellow with the free pass carries it away with him.

Mr. POULIOT: Is it the same as before, a pass for themselves and their families?

Mr. ARMSTRONG: I am speaking of examples in our particular department of men who have enlisted.

Mr. ROSS: They cannot use them on military duty.

Mr. ARMSTRONG: No, sir. They have the same privilege as if they were working on the railroad. They are on leave of absence with full pass privileges, which means their dependants would qualify also.

Mr. EMMERSON: Would you enlarge a little more, Mr. Hungerford, on the special pension for men on the railways now in the service?

Mr. ARMSTRONG: The idea is that the pension rights are maintained and they qualify for pension when they return.

Mr. EMMERSON: Their time counts?

Mr. ARMSTRONG: Yes.

Mr. HUNGERFORD: Their time counts, and in addition to that we undertake to pay a special pension for them covering the time they are on military service. It is not the regular pension at all, it is something quite separate from the regular pension contribution.

Mr. EMMERSON: If an employee comes back suffering a disability which prevents him from resuming his regular employment in the railway is there any special provision for him taking his regular railway pension whether he has completed his time or not?

Mr. HUNGERFORD: That would apply only if he was of the age to qualify him for a pension. In most cases the men returning from the war would not be old enough to qualify for pension.

Mr. EMMERSON: But if he came back and suffered a disability due to his war service and such disability would prevent him from resuming employment on the railway—

Mr. HUNGERFORD: He would not receive a pension. Then what we would do would be to try to find a job for him.

Mr. MAYBANK: I suppose the plan of the railway with reference to those pension privileges was all announced by way of bulletins or something like that to the employees?

Mr. ARMSTRONG: Yes, Mr. Maybank.

Mr. MAYBANK: I wonder if it would not be useful if these bulletins were filed here and made a part of the record.

Mr. ARMSTRONG: We can file the regulations.

Mr. MAYBANK: I do not want to ask any more questions at the moment, but I do think it would be useful to have these bulletins in the parliamentary record.

Mr. ARMSTRONG: We can put the information on the record.

Mr. JACKMAN: Is the pension plan of the railway a contributory one or is the railway bearing the whole burden?

Mr. HUNGERFORD: It is now on a contributory basis.

Mr. JACKMAN: How does the enlisted employee pay into the plan? Is he allowed to do that or is this special war plan you have making up for his contributions to the pension plan?

Mr. COOPER: It is in substitution of his right to contribute. It is an alternative. If he were working he would contribute to build his pension up that way. If he is in active service he gets a special allowance which is an alternative to the contribution to his pension. His pension is kept up in full while he is away.

Mr. HUNGERFORD: We will file the bulletin and I am sure it will give you the information.

The CHAIRMAN: On page 18 appears, "transfers during year 1940 affecting proprietor's equity."

Mr. MAYBANK: I wonder if I could ask another question with relation to the enlisted men arising out of the remarks that have been made. It was said, and I think everybody understood that seniority is retained. In sections where the seniority principle does not obtain the job is held open for the man. Everybody will remember that after the last war there was a great deal of trouble about certain people having got in the service and taking jobs during

the war period and when the men came back they of course ranked as juniors. Seniority was maintained for any man who was already employed on the railroad and enlisted. But the trouble was that the returned men who came back were employed probably because a preference was given to them, but they found that whenever there was a lay-off they were the first fellows to go. You will remember that a great deal of trouble took place at times about that. Have you given any consideration to the working out of a scheme with the trade whereby the seniority of people being employed now would not interfere with seniority that may be obtained by men coming back from the war and being hired then. It would be a sort of two kinds of seniority in operation at the same time. I suggest you might bar a great deal of trouble later on if you could work out something like that.

Mr. HUNGERFORD: Well, I can say this, being familiar with some of the trouble that resulted from the former war. We have tried to plan very definitely to avoid those troubles in this instance. I am not able to give you all the details offhand at the moment, but I can give you assurance that so far as it is possible to do so we have endeavoured to protect against those very difficulties that you speak of.

Mr. MAYBANK: Are the trade unions fitting into the planning idea? Are they working in with you and your planning in that respect?

Mr. HUNGERFORD: Yes, they have been consulted in regard to it.

Mr. MAYBANK: Would it be going too far to say that the railroad or the railroads together with the unions are trying to take steps now to prevent similar dissatisfaction?

Mr. HUNGERFORD: Yes, I think it is fair to say that.

Mr. MAYBANK: It is a joint effort?

Mr. HUNGERFORD: Yes, it is a joint effort. You see, in order to preserve the seniority of these employees who are away on military duty beyond one year it was necessary to consult and arrange with the union in turn, and the whole thing has been given consideration jointly.

Mr. MAYBANK: Of course, the problem is not quite so acute now because you say the man will hold his seniority. In the last war if he had been away five years and came back and fitted into the same job he had before it was all right but where it was bad was a large number of people were employed during the war and then when the returned soldiers came back and were employed they fell under the other two seniority lists I have mentioned.

Mr. HUNGERFORD: I think we have reasonably protected against that contingency.

Mr. MAYBANK: It is not far enough advanced yet to indicate the way in which you are protecting against it?

Mr. HUNGERFORD: I think we can get you a statement on it. We had better do that and have it in a more accurate form.

Mr. MAYBANK: I do not want to press it at the moment. If you can give a statement that can be made part of the record by filing it or as an appendix or something like that it would be quite satisfactory.

Mr. HUNGERFORD: We will get you something.

Mr. MAYBANK: Something like that?

Mr. HUNGERFORD: Yes.

The CHAIRMAN: Have you any questions to ask with regard to transfers during the year 1940 affecting proprietor's equity?

Mr. HAZEN: How are these values arrived at?

Mr. COOPER: In respect of the line abandonment? It represents the estimated original cost less the value of the salvage.

Mr. HAZEN: Not the cost that the C.N.R. paid for those railways when they took them over?

Mr. COOPER: No, it is generally an estimate made by the engineer of what it would cost to build that railroad.

Mr. JACKMAN: I should like to refer to the item "capital (exclusive of loss applicable to expired service life) on sale of *S.S. Prince David* and *S.S. Prince Robert*." What happened to these boats, were they commandeered?

Mr. COOPER: Yes.

Mr. HUNGERFORD: Taken over by the navy.

Mr. JACKMAN: They bought them from you?

Mr. COOPER: Yes.

Mr. JACKMAN: And the price you received was such that after allowing for the depreciation if any that had been set up you showed a loss of \$1,474,971.24.

Mr. COOPER: That is correct.

Mr. JACKMAN: It seems rather extraordinary with the price of bottoms as high as it is that you should have such a whacking loss.

Mr. COOPER: Then the government got the advantage.

Mr. JACKMAN: There must be something rather odd about the bookkeeping—not the accuracy of it; but the principle behind it when you have a couple of steamships that you presumably have been writing enough off for depreciation as you used them and then when you sell them in what is probably the most favourable steamship market in many many years you take a tremendous loss even after depreciation.

Mr. VAUGHAN: These boats were fast high-class passenger boats. The passenger accommodation was of little or no use to the navy and the vessels were taken in the early stages of the war before the price of bottoms advanced. It was considered at that time that that was perhaps a fair valuation for the boats, as much as probably could be got elsewhere for the boats. They had to spend \$700,000 or \$800,000 on each of those boats to make them satisfactory for their service.

Mr. JACKMAN: They are in the ocean service some place?

Mr. VAUGHAN: Yes, they are doing, I understand, good service for the navy.

Mr. JACKMAN: You had no option about whether you would keep the boats or not?

Mr. VAUGHAN: No, they were requisitioned by the admiralty.

Mr. JACKMAN: By the British admiralty?

Mr. VAUGHAN: No, by the Canadian admiralty.

The CHAIRMAN: Did you receive any payment for the boats? I think there must be a little misunderstanding about that.

Mr. VAUGHAN: Yes, we got paid for the boats. We did not perhaps negotiate as hard a bargain with the navy as we might have done. We felt it was just from one pocket to the other anyhow. It was not something that it was worth while arguing about very much.

Mr. JACKMAN: I think the officers of the navy are pretty jealous of their company's statement. If you received a fair price for these boats, even if you did not get the war price for them, it must indicate, when you have a loss like this, that you have not depreciated your boats nearly as quickly as you ought to have done.

Mr. COOPER: We have depreciated them at the rate of three per cent, Mr. Jackman. They had only been in service nine years.

Mr. ROSS: What was the original cost of the boats?

Mr. COOPER: The two boats together cost \$4,329,000.

Mr. HANSON: The David and the—

Mr. COOPER: The David and the Robert.

Mr. JACKMAN: You had one of two alternatives to take. The first one is you did not depreciate the boats enough; the other is the government stole the boats from you.

Mr. HANSON: The Robert stole a German boat on its first trip out.

Mr. HAZEN: What did the government pay for them?

Mr. COOPER: The government paid \$1,400,000 for the two.

Mr. JACKMAN: How did they arrive at that price? Did the government just tell you that they were going to pay that price?

Mr. VAUGHAN: We carried on lengthy negotiations and we got a higher price than the government felt they were worth to them. I think they offered \$500,000 for them each and we got \$700,000 or a little more.

Mr. JACKMAN: You should have told the government you wanted a better price.

Mr. VAUGHAN: In war times the government can do anything they want to do.

Mr. HUNGERFORD: They required the ships and they were going to take them and talk about the price afterwards.

The CHAIRMAN: Page 19, funded debt.

Mr. JACKMAN: Have you got any funded debt problems in 1941? Do you want the money for redemption?

Mr. COOPER: Yes, there will be about the same amount in 1941 as there was in 1940. The figure in 1941 will be \$9,378,000 for serial equipment issues.

Mr. McCULLOCH: Is there any way of paying off this 6½ per cent due in 1946—\$23,897,000?

Mr. COOPER: No, I do not think so. They are not callable; unless we repudiate them.

Mr. McCULLOCH: They will not be paid until 1946.

Mr. JACKMAN: Which rolling equipment certificates are you going to retire? Where are they set out on page 19?

Mr. COOPER: You will get the details of that when we come to the budget.

Mr. JACKMAN: Is that particular issue set out on page 19 in part?

Mr. COOPER: Yes, it can be identified. There is quite a number of them—I should say there are twelve or fifteen items.

Mr. JACKMAN: On page 19?

Mr. COOPER: In the budget for 1941 there are about 15 items of debt to be paid off, and they can be identified under the issues shown on pages 19 and 20. I suggest we wait until we get to the budget.

Mr. JACKMAN: The same applies to the \$344,000 for acquisition of securities.

The CHAIRMAN: We have finally found the means of getting around the perpetual debenture stock to some extent.

Mr. COOPER: The British government stepped in there.

The CHAIRMAN: Is there any further discussion. If not, we will adjourn. We will start from page 20 when we meet at 3.30.

The committee adjourned to meet at 3.30 p.m.

AFTERNOON SESSION

The committee resumed at 3.30 p.m.

The CHAIRMAN: Order, gentlemen. Mr. Armstrong has an answer for you, Mr. Jackman.

Mr. ARMSTRONG: A question was asked on the hotel operating result and capital expended in the year 1940. I have here an answer giving the revenue, expenses, taxes, net hotel operating income, expenditure on capital account, and the net hotel operating income for all the hotels we operate, and I shall have this answer placed in the record.

CANADIAN NATIONAL RAILWAYS

HOTEL OPERATING RESULT AND CAPITAL EXPENDED—YEAR 1940

	Revenue	Expenses	Taxes	Net Hotel Operating Income	Expenditure on Capital Account
Charlottetown	\$ 87,629	\$ 88,627	\$ 3,638	\$ 4,636	\$ 779
Pictou Lodge.....	17,538	23,827	219	6,508	7,472
Nova Scotian.....	454,811	358,480	11,472	84,859	8,906
Chateau Laurier.....	1,601,758	1,145,844	60,794	395,120	14,914
Prince Arthur.....	169,672	161,347	5,882	2,443	804
Minaki Lodge.....	61,782	56,198	.....	5,584	3,467
Fort Garry.....	370,478	375,357	26,216	31,105	15,024
Prince Edward.....	119,568	113,960	3,268	2,240	8,033
Macdonald	389,119	375,501	13,965	347	2,273
Jasper Park Lodge.....	380,465	336,282	3,060	41,123	56,706
Bessborough	283,493	269,374	806	13,313	137
	<u>\$3,936,313</u>	<u>\$3,304,807</u>	<u>\$129,320</u>	<u>\$502,186</u>	<u>\$118,241</u>

NET HOTEL OPERATING INCOME

1936-1939 Inclusive

Year 1936.....	\$160,017
Year 1937.....	200,087
Year 1938.....	226,014
Year 1939.....	302,364

Mr. JACKMAN: Thank you very much. I have another question along the same lines. I understand the Nova Scotian hotel in Halifax has had some redecorating done of a rather extensive nature. I wonder if we could have the cost of that. The decorating was done to the main dining room, the large entrance hall of the Nova Scotian hotel in Halifax, and an expensive carpet placed in the dining room, etc.

Mr. COOPER: I think that work is still in progress. I do not think it is finished.

Mr. JACKMAN: I hardly need to ask here if there is any necessity for it. I am informed some people do not think there was any necessity for it and I should like to get the cost of it if we could have it. You say you have not got the final figure.

Mr. COOPER: I happened to be in that hotel last week and I was talking to the manager. He said it was not decorated since it was built and he thought it was high time it was decorated.

Mr. JACKMAN: Is that ten years ago or so?

Mr. COOPER: Around that.

Mr. JACKMAN: It had not been redecorated at all?

Mr. COOPER: Not these particular rooms, that is the entrance to the main dining room and the public rooms.

Mr. JACKMAN: Nor redecorated?

Mr. COOPER: It was opened in 1930.

Mr. JACKMAN: I am rather surprised you did not do that by tender. Were any tenders called in that connection?

Mr. COOPER: I really do not know.

Mr. VAUGHAN: We have some maintenance men around the hotel and they are doing that work from day to day, almost constantly. I know so far as the hotel goes we have had a great many complaints about the dirty condition of it and I think it was as a result of these complaints that this touching up of the hotel piece by piece has been done by our own men.

The CHAIRMAN: I might say to the committee that Mr. Fraser, the vice-president in charge of traffic is here. There were a number of questions asked yesterday in regard to scrap iron and division of business. I see the members who asked these questions are not here. These questions were asked by Mr. Nicholson and Mr. Pouliot and Mr. Maybank. Mr. Maybank is here. I think he has something to say about it. Were you not asking questions with regard to the division of business, Mr. Maybank?

Mr. MAYBANK: Yes, I brought that up you remember yesterday and we touched on the passenger situation. I think Mr. Hungerford said Mr. Fraser would be here to-day. He suggested to me this morning not to mention it then but to leave it until this afternoon. What I wanted to do was to follow up with respect to freight and some other matters, the same sort of investigation that we had yesterday with relation to the movement of the armed forces. I am interested in knowing what the split is in government-controlled business related to the war, what division is made between the two railroads.

Mr. FRASER: I could not give it to you in accurate figures, Mr. Maybank, for reasons which you will at once understand. It would be quite a job to go through the number of way bills, thousands of them, to get the figures, so that we are pretty much in the realm of judgment. In addition to that we have no knowledge of our own as to what is given to the Canadian Pacific Railway. I would think that probably it could only be ascertained in accurate form by a return similar to the one on passenger business. But our best judgment is that the government-controlled business is given in the ratio of 45 to 55. The Canadian National participates at a maximum of 55 per cent.

Mr. MAYBANK: Who gets that 55 per cent?

Mr. FRASER: The Canadian National.

Mr. MAYBANK: Well, —

Mr. FRASER: I would think myself that year in and year out probably 50 per cent would be a very good estimate.

Mr. MAYBANK: Mr. Fraser, just as a matter of record, what is the difference in the capitalization of the two? We have to earn on what—

Mr. FRASER: Perhaps Mr. Cooper has it there under his hand.

Mr. MAYBANK: Two billion?

Mr. COOPER: The fixed charges of the Canadian National in 1940 were \$53,305,000.

Mr. MAYBANK: And the C.P.R.?

Mr. COOPER: The fixed charges of the Canadian Pacific, including some provision for interest on Sault line bonds is given in their annual report for the year 1940 as \$26,186,000.

Mr. MAYBANK: What is the ratio there?

Mr. COOPER: Just about one-half.

Mr. MAYBANK: The ratio of 53 to 26?

Mr. COOPER: Twenty-six to fifty-three, yes.

Mr. MAYBANK: What is the ratio of employees?

Mr. FRASER: Again I think you will get information from Mr. Cooper.

Mr. MAYBANK: I should put two words in there, Mr. Cooper. I am, of course, referring to Canada since all of these questions connote Canadian government controlled business. In the second place I am referring only to railways proper, not steamship services. All that sort of thing is ruled out. Can you give the ratio there?

Mr. COOPER: I would say the fixed charges of the Canadian Pacific included their steamships and ours would include the fixed charges on our properties in the United States. I think you will have to take these two figures in a sort of broad way but when you come to the number of employees, the employees in Canada of the Canadian National Railways in 1940 were 75,000, and of the Canadian Pacific 53,000.

Mr. MAYBANK: Seventy-five and?

Mr. COOPER: Seventy-five and fifty-three.

Mr. MAYBANK: About two to three. Then, in order to get the figures complete what is the mileage ratio in Canada.

Mr. COOPER: The Canadian National mileage in Canada, that is the first named track, 21,798, and the Canadian Pacific 16,829.

Mr. MAYBANK: I know we had this before, but I want to get it in its place at this time.

Mr. JACKMAN: Are all collateral services fairly comparable such as hotels? Does the C.P.R. operate a larger system of hotels than the Canadian National in Canada?

Mr. COOPER: Their investment is very much higher than the Canadian National.

Mr. JACKMAN: The Canadian Pacific is higher?

Mr. COOPER: Yes, much higher.

Mr. MAYBANK: The C.P.R. gets its business then on a basis 50-50. So far as any of that east of Quebec is concerned we do not get it by direction of either the shipper or the consignee, because we would be bound to get that for the Canadian National anyway. If you were to deal only with the traffic west of Quebec it would appear that the C.N.R. is even less well off than the figures 50-50 suggest. Is not that true?

Mr. FRASER: No, I think the figure I gave you, Mr. Maybank, is the best judgment of the whole. The way you put it you are including there non-competitive business. When I mention 50-50 I am speaking about competitive business, open to competition by both railways. But speaking of the mileage, if you will permit me before you leave that, I should like to call attention to one interesting breakdown in the mileages of the two. In the prairie provinces, Manitoba, Saskatchewan and Alberta, each of the railways have about 50 per cent of the railways. In the province of British Columbia the Canadian National have 41 per cent of the mileage. But when you come to the maritime provinces the Canadian National have 74 per cent of the mileage. In Quebec and Ontario we have 64 per cent of the mileage and the total for eastern Canada is 66 per cent of the mileage.

Now, in the nature of the case that 66 per cent is in territory that is very highly competitive and very diverse and there is a much larger proportion of the government traffic purchased in that territory than there is in the west; so that if you are comparing on the basis of mileage, really when you think of where that traffic originates, or the big bulk of it, the position of the Canadian National becomes, from my point of view, rather more unfavourable.

Mr. MAYBANK: You are in this central area where you have 64 per cent of the mileage and the best you can do over all Canada is 50-50. Part of that is in a non-competitive territory almost, therefore obviously you are evidently not getting your share in central Canada. That is my statement.

Mr. FRASER: I do not care to disagree with it.

Mr. MAYBANK: You are not disagreeing?

Mr. FRASER: No, I am not, from my point of view, Mr. Maybank, leaving the government out altogether; leaving public business out in the provinces, in the eastern part of Canada, it seems to me that we must get 66 per cent of the general commercial business which is done by Mr. Jones, Mr. Brown, Mr. Smith and so on.

Mr. MAYBANK: Do you?

Mr. FRASER: Oh, yes we do. I say 66 per cent. We get a very large proportion.

Mr. MAYBANK: You mean about that?

Mr. FRASER: Yes. Now, in order to maintain our services we cannot live, and maintain services comparable with the Canadian Pacific on half of the business of the country, because we have to maintain a considerably larger proportion of service, so that I would expect to get from the commercial concerns and I will argue with them that I was entitled to 66 per cent of their business. If that be true of a commercial concern, and I am only giving you my own opinion, it seems to me that should be the minimum which the government, the owner of the property, should give to us. I hold very strong view on that.

Mr. MAYBANK: I gathered that.

Mr. HANSON: In this connection could the witness tell us how much of the Canadian Pacific stock is held in Canada or in other countries?

Mr. COOPER: That is shown on page 18 of the annual report of the Canadian Pacific Railway for the year 1940. This report shows that 18.04 per cent of their ordinary stock is held in Canada, and .94 per cent—less than 1 per cent—of the preference stock is held in Canada.

Mr. HANSON: Do they give the countries where the other shares are held?

Mr. COOPER: Yes. Canada 18.04 per cent, United Kingdom and other British countries 53.03 per cent, United States 22.63 per cent, other countries 6.3 per cent.

Mr. MAYBANK: That is only the ordinary shares of course.

Mr. COOPER: Then there are the preference shares shown here as well. In Canada .94 per cent; in the United Kingdom and other British countries 95.96 per cent; in the United States .26 per cent, other countries 2.84 per cent. Combining the two stocks the percentage held in Canada is 12.98 per cent, United Kingdom and other British countries 65.75 per cent, United States 16 per cent, other countries 5.27 per cent.

Mr. HANSON: Is it the same for the C.N.R.?

Mr. COOPER: All the stock of the C.N.R. is held by the Canadian government.

Mr. HANSON: In other words by the Canadian people.

Mr. MAYBANK: I would like to ask Mr. Fraser a question. Mr. Fraser, do you know of any steps that the Canadian Pacific Railway takes to obtain business that you do not take?

Mr. FRASER: Have you something in mind?

Mr. MAYBANK: No, I have not. I just wondered whether the one company was more aggressive than the other in trying to obtain business. I have not anything specific in my mind.

Mr. FRASER: No, we certainly hope not. We think they are not any more aggressive than we are.

Mr. MAYBANK: There was a time—I saw it in western Canada—when all the employees of the Canadian National were very aggressive in obtaining business. That is no longer the case; there is not quite the same enthusiastic search for business on the part of the employees that there used to be. I wonder whether the C.P.R. maintain any different soliciting service than you do?

Mr. FRASER: No. They are fairly comparable in the city of Ottawa. Of course, they have special representation here which we have not at all times.

Mr. MAYBANK: You mean lobbyists?

Mr. FRASER: I would not like to put it that way.

Mr. MAYBANK: Not meaning anything stigmatic at all, that is a word we have come to use.

Mr. FRASER: Yes. They have special representation here all the time for traffic purposes largely.

Mr. MAYBANK: Is it your opinion that that is efficacious?

Mr. FRASER: Well something, perhaps, is; I suppose it is a factor.

Mr. MAYBANK: I suppose they would not keep them unless they paid their way.

Mr. FRASER: They do not usually make mistakes of that kind, no. Mr. Maybank, you asked me to go in so deeply that I think I might as well go all the way.

Mr. MAYBANK: Yes, I think so, as far as possible.

Mr. FRASER: I am giving you my own view. You are speaking now of a division of the business?

Mr. MAYBANK: Yes.

Mr. FRASER: I am, as you know, the head of the department directly concerned with obtaining business, freight and passenger business, and I give a great deal of thought to that matter. To my mind there should be no division of the business at all. I cannot understand the idea of dividing the business of the people of Canada with my competitors, for this reason if for no other: you have a dollar to spend on transportation, you may spend it with the Canadian National or you may spend it with the Canadian Pacific or with a truck. Now, if you spend it with the Canadian Pacific or the truck it costs you a dollar; the Canadian National can render for you that exact service at cost. The financial men would readily tell you what that was. If you pay me a dollar for transportation it pays the same tax at least as the Canadian Pacific dollar pays, but I give you back 40 cents or 50 cents or 60 cents as the case may be, whatever the experts would say it was. To me it is incredible that the business of the owners of the property should be handed to someone else to perform at a greater cost than I can perform it. It does not make any more sense to me than it would for Eatons, if they had trucks, to hire Simpsons to do their trucking. I am giving you my frank personal opinion, but I cannot understand a division of the business, and particularly in war time. My view is that every pound of business that is paid for by the taxpayer of Canada should be moved and every passenger should be moved on your own railroad, by every test, it if can be done.

Mr. JACKMAN: I presume you would like to have things made easy for you.

Mr. FRASER: Naturally.

Mr. JACKMAN: I do not think that your viewpoint is a fair one. I do not want to express any opinion about public ownership as against private ownership. The thesis which you have put forward of a comparison of Eatons giving their delivery business to Simpsons is not a good one between the Canadian

National Railways owned by the government and the C.P.R. as a private organization; the comparison is not on all fours. You must remember that some people in this country still do not believe in socialism, and public ownership is a step towards socialism as we all know.

Mr. MAYBANK: I do not know whether the socialists would agree with you on that. If you stir this conversation into socialism where are we going to get?

Mr. JACKMAN: We will have to get the aid of the C.C.F's, perhaps.

Mr. FRASER: At an appropriate place I would be delighted to argue that with you in answer to you.

Mr. JACKMAN: You want things easy, given to you; on the other hand, a great many citizens of the Dominion of Canada share your viewpoint and do ship their business over the government line because they say that is their line and let the other line go hang. There are other people who feel that a fair division of the business should be made, particularly where there is a great deal of business—that both should get their portion of it; and the whole basis of the competitive system which many of us support is that the people shall fight for business on the basis of service rates, and not because the shipper happens to be also the owner of the enterprise such as you suggested there. I think it is very wise that we maintain a healthy competition between these two companies and that the business be given on the basis of rates which, I presume, are equal under the commission, the consideration then being service; and that should be the basis on which you fight for your rights.

Mr. FRASER: I fight more successfully outside of the government business on that competitive basis.

Mr. MAYBANK: It is rather apparent that we could get into a very very deep chasm of disagreement on that, but as Mr. Jackman points out we are all apparently agreed that there ought to be something pretty fair in the way of division. At an appropriate time I should like to offer a resolution which would find its way into the report with relation to this. I might say this, that there is one point, I think, that is overlooked by Mr. Fraser there, and that is that on the other road there are a considerable number of employees and they are all citizens of Canada, and that any very quick change so as to completely use our own service would, of course, affect all of them adversely, and we have to look at that aspect of the factor too. However, it is not my purpose to go into an expatiation on that.

Mr. FRASER: I have no quarrel with anybody on his viewpoint. There may be many public considerations justifying it. I am giving the reasons for my own view.

Mr. MAYBANK: Let us look at another aspect of this. I have a memorandum in front of me dealing with certain government sites. I do not know who made up the memorandum and I do not know that it matters who made it up; but I wanted to use it for the purpose of discussion here. We have had established in Canada a very considerable number of industries which are substantially government industries. Some of them are wholly so. One is at Calgary, another is at Winnipeg and some others are down this way. What size of business would it appear that we are going to get or are getting at the Calgary Chemical Plant? What can you tell me about that?

Mr. FRASER: The Alberta Nitrogen Company?

Mr. MAYBANK: Yes, the Alberta Nitrogen Company. Is that a company comparable with the Nobel plant over here and the Carbide plant near Winnipeg?

Mr. FRASER: Yes.

Mr. MAYBANK: The set-up is the same, is it not?

Mr. FRASER: Yes.

Mr. MAYBANK: It is a D.I.L. company, is it not?

Mr. FRASER: Yes, I think it is D.I.L.

Mr. MAYBANK: D.I.L. and C.I.L. are the same; they just organized themselves into D.I.L. for the convenience of meeting their war contracts?

Mr. FRASER: I think the D.I.L. is an operating company for the C.I.L. In this particular case I think Consolidated Smelters are operating the nitrogen plant.

Mr. MAYBANK: That is the C.P.R. that is operating that plant?

Mr. FRASER: Yes.

Mr. MAYBANK: And what is the story with reference to this location; who chose the location?

Mr. ARMSTRONG: The Alberta nitrogen plant is located near Calgary—I think the Consolidated Smelters had the final decision on the site. The Canadian National line—at least the right of way of an old line—was located practically through the property which was acquired for the plant, and the history of the sidings serving this plant is briefly this: the Canadian National had a track laid within a half mile of this particular plant; when the property was chosen—I should say when the site was chosen—the Canadian National extended its track along its own right of way to where the plant would be located, half a mile away. The plant being a Consolidated Smelters' plant and having a close affiliation with the Canadian Pacific Railway, they desired to serve the plant also. The Canadian National offered to give them running rights or to perform service for the Canadian Pacific. Unfortunately, nothing along that line could be arranged and the result was that the Canadian Pacific built its own line into the plant. I think their line would probably be about three miles away; and they built an independent line into the plant; so that both companies now serve the plant. There was also itself some mix-up regarding the entrance of the tracks to the plant which, however, was solved to the satisfaction of all concerned. That is briefly the history of that industry.

Mr. MAYBANK: Supposing you had worked it the way you desired with the C.P.R., and had given them running rights, perhaps, or given them a service, what haulage would you have got that you now won't get?

Mr. ARMSTRONG: I doubt that we would have got any because the plant being in the hands of the Consolidated Smelters, and closely affiliated with the Canadian Pacific Railway, we might not expect to get much more than we will get now. Actually, from the point of view of the country—and I will say from our point of view—the three mile line was not necessary, was not essential.

Mr. MAYBANK: Supposing you had not had the three mile line but you had been serving the plant, how far would you have to haul anything from it before meeting up with the C.P.R.?

Mr. ARMSTRONG: Probably two and a half to three miles. Whether we would have had to make an inter-change point there I am not sure. There is one, Mr. Hungerford reminds me. We offered them a switching rate over the two and one-half miles of line; they could have switched themselves from their own line over our line.

Mr. MAYBANK: How do they benefit themselves by this three-mile extension? There does not seem to be very much benefit to them.

Mr. ARMSTRONG: That is something I cannot answer; I do not know.

Mr. MAYBANK: Did it benefit them?

Mr. ARMSTRONG: It may come out in the future division of the traffic; I do not know.

Mr. MAYBANK: They had complete control of the traffic anyway even though it was first placed on the two and one-half mile line.

Mr. ARMSTRONG: Possibly for road haul, yes.

Mr. MAYBANK: Well, now, who was building that plant because it is at the present time in the process of building?

Mr. ARMSTRONG: I do not think it is completed yet.

Mr. MAYBANK: Do you know who are building it?

Mr. ARMSTRONG: The contractor?

Mr. MAYBANK: Yes.

Mr. ARMSTRONG: No, I do not.

Mr. MAYBANK: Is it not the Fraser Brace people who are building the cordite plant at Winnipeg?

Mr. ARMSTRONG: I do not know.

Mr. MAYBANK: Do you know what percentage of the contractors' business you got?

Mr. ARMSTRONG: No; I think perhaps our traffic people would know.

Mr. FRASER: The situation there was this: Instructions were given—

Mr. MAYBANK: By?

Mr. FRASER: By, I think, the Allied War Supplies Corporation in Montreal which has to do with the location of these plants that the business was to be divided as nearly as possible equally between the two railways.

Mr. MAYBANK: That would be in letting their contract to whomever it is that is doing it.

Mr. FRASER: Yes, that he should divide his business in, and when the plant was completed outbound business, equally if possible between the two railways. Those instructions were disregarded and we found that most of the material for the construction of the plants was moving by our competitor. Very strong representations were made by myself personally with a minimum of success; but eventually—I think there are perhaps some heartburnings in connection with it—the instructions became more definite and better understood and I have been assured by the corporation that from now on the business will be divided equally between us. It took a good deal of doing, I may say.

Mr. MAYBANK: Up to the point that you are now I suppose there has been a great deal of traffic go in there?

Mr. FRASER: Yes, and the amount we moved was negligible. What proportion I do not know because I do not know how many carloads the competitor moved.

Mr. MAYBANK: You had a good deal of difficulty getting the promise which you now have?

Mr. FRASER: I had the promise, but I had a good deal of difficulty getting fulfilment.

Mr. MAYBANK: You now have another promise.

Mr. FRASER: Yes.

Mr. ROSS: The project is well on the way to completion?

Mr. FRASER: Yes, it is, how far I do not know. I think it is owned by the government but as I understand it constructed by and operated by the Consolidated Smelters.

Mr. VAUGHAN: Under the supervision of the Allied War Supplies Corporation.

Mr. FRASER: Allied War Supplies, yes.

Mr. MAYBANK: I believe Allied War Supplies do not actually operate anything. They just get the thing ready for operation by somebody else.

Mr. VAUGHAN: They supervise the operation.

Mr. MAYBANK: Even afterwards?

Mr. VAUGHAN: Yes.

Mr. MAYBANK: You say you personally made strong representations. You mean that these representations were made to Allied War Supplies?

Mr. FRASER: Correct, and I know that the Allied War Supplies acted on them but they had their own troubles, too.

Mr. MAYBANK: You are satisfied they did act upon your representations?

Mr. FRASER: Yes.

Mr. MAYBANK: Well, then, what about the cordite plant at Winnipeg, what is the story there? I put that question to you, Mr. Armstrong.

Mr. ARMSTRONG: The cordite plant at Winnipeg was originally decided upon to be served by the Canadian National Railways.

Mr. MAYBANK: May I interrupt you there? It was originally decided upon to be served by the Canadian National Railways. What is the position now?

Mr. ARMSTRONG: I will put it this way: that the area selected for the plant, which met all the requirements of defence industry and Allied War Supplies Corporation, was close to the Canadian National; that, as I understand it, representations were made by the Canadian Pacific who felt they should have a share in the business and the site was changed to a section of territory which was served by both railways; that is between the two railways. In order to do so it was necessary to pipe a water supply some considerable distance at an expense which we understand was \$50,000 or \$60,000.

The CHAIRMAN: So it is still much nearer to your plant?

Mr. ARMSTRONG: You might call it now a jointly served plant between the two railways.

The CHAIRMAN: Yes; I live there, and it is much closer to the C.N.R. than it is to the C.P.R.

Mr. MAYBANK: Yes, it is closer to the C.N.R. now, Mr. Chairman. Even now it is closer to the C.N.R., is it not?

Mr. ARMSTRONG: Yes, it is.

Mr. MAYBANK: You say the cost of the pipe line to bring the water amounts to \$50,000 or \$60,000?

Mr. ARMSTRONG: That is the cost as reported to us.

Mr. MAYBANK: That was paid by the Canadian Pacific Railway Company in order to get the site changed a little bit.

Mr. ARMSTRONG: That would be a fair statement, I would say.

Mr. MAYBANK: At any rate, it was paid by them and the site was changed to that extent.

Mr. ARMSTRONG: It is understood to be paid by the Canadian Pacific in the first instance. Who will eventually pay it I do not know.

Mr. MAYBANK: What do you mean by that?

Mr. ARMSTRONG: It is a matter of—

Mr. MAYBANK: Is there any suggestion that the government will pay them back? Is that what you mean?

Mr. ARMSTRONG: Whether or not it will be included in the cost of the plant and paid back by the government I do not know.

Mr. JACKMAN: There is no evidence that the Canadian Pacific will not bear the cost eventually.

Mr. ARMSTRONG: There is no evidence either one way or the other.

Mr. JACKMAN: The Minister of Munitions and Supply in answering some questions in regard to this location some time ago, if I recall correctly, from memory, said that it was entirely at the expense of the railway company.

Mr. MAYBANK: Yes, that statement was undoubtedly made. The statement was made that the other railway company was going to pay, and the inference I would draw from that would be that it would be paid not merely in the first instance but finally the amount of \$50,000 or \$60,000 would rest upon the Canadian Pacific Railway.

Mr. ARMSTRONG: As I have said, we have no information either one way or the other.

Mr. MAYBANK: In that case I know who the contractors are. The contractors are Fraser Brace. How are you doing? How have you been doing in regard to the traffic connected with the building of that plant?

Mr. FRASER: We have been handling most of the traffic into that plant.

Mr. MAYBANK: Is it something like 60 per cent or 70 per cent? Can you give an idea of that percentage?

Mr. FAIRHEAD: I would say about 65 per cent.

Mr. MAYBANK: The next plant I wanted to ask about or the next place I wanted to ask about was Cherrier. Where is that?

Mr. ARMSTRONG: Cherrier is east of Montreal; it is just off the Island of Montreal. Charlemagne is the nearest station to it. Bout de L'Isle is the end of the island and Charlemagne is the next station off the island. Cherrier is a new station for the new shell-filling plant. That is a case where the plant was located immediately adjacent to the Canadian National Railways. We serve that particular plant exclusively.

Mr. MAYBANK: You do serve it?

Mr. ARMSTRONG: We serve it exclusively. The only connection the Canadian Pacific might have had with that was that there was some question of their building a line in there. Fortunately—I say fortunately for us—although they made surveys of the line—and it would be, I think, four to five miles long—although they went so far as to make surveys they did not build the line. They did try to obtain permission to build in to the plant. Neither the Allied War Supplies Corporation nor the Minister of Munitions and Supply would grant them permission. That is briefly the history of that.

Mr. MAYBANK: Now, there is a large number of plants under the Department of National Defence, a large number of establishments started throughout the country, and they all make traffic. What is the situation in regard to them?

Mr. ARMSTRONG: Well, with regard to the Royal Canadian Air Force there are various flying, bombing and air navigation schools—I presume there is no harm in giving figures—

Mr. MAYBANK: You mean no harm in mentioning where they all are?

Mr. ARMSTRONG: No, I am just mentioning numbers.

Mr. MAYBANK: It is all public property by now anyway.

Mr. ARMSTRONG: There are twenty-six sidings for these air force schools. Of these the Canadian National has installed ten and may install five additional; the Canadian Pacific have installed eleven. In addition—there are Royal Canadian Air Force equipment and repair depots—there are ten. The Canadian National Railways serve three, the Canadian Pacific two, and the Canadian Pacific and Canadian National serve jointly four. There is one not served at all, but it is located in Calgary and in all probability will be served by the Canadian Pacific. We are getting, I would say roughly, 50 per cent or slightly better.

Mr. ROSS: What are the names of the four jointly served?

Mr. ARMSTRONG: I have not a list of the names although one of them I think is at—

Mr. MAYBANK: One is at Macdonald.

Mr. VAUGHAN: One right at the airport in Winnipeg.

Mr. ARMSTRONG: One is at Macdonald.

Mr. VAUGHAN: The one in Winnipeg is jointly served.

Mr. MAYBANK: It is right at the airport and the two roads are quite close.

Mr. VAUGHAN: The Canadian National have a siding and the Canadian Pacific also built one.

Mr. MAYBANK: You were probably referring a moment ago to the one at Macdonald. I think that is C.P.R., up the road to Neepawa; it is near Portage la Prairie.

Mr. ROSS: Have you the situation in London?

Mr. ARMSTRONG: The situation at London?

Mr. ROSS: They have an airport there now near a shell factory going up.

Mr. ARMSTRONG: I do not know whether I have information on that or not.

Mr. VAUGHAN: That plant is being put up by the Fleet Aircraft Company with Government money.

Mr. ROSS: You are going to operate it?

Mr. VAUGHAN: They are going to operate it; it is located on the Canadian Pacific.

Mr. MAYBANK: Again speaking of these places that both railroads are serving, such establishments as we have been speaking about, how have we been doing both in respect to traffic leading to the building of those places and how have we been doing with respect to the traffic out of them afterwards?

Mr. FRASER: Well, as to the plants being constructed by the Munitions and Supply Department our feeling is that we are doing pretty well. So far as the other plants are concerned, those under National Defence, we are not quite so happy about them.

Mr. McCULLOCH: They should get the lion's share of the traffic anyway. They should get more than they are getting now. The Canadian National has 21,000 miles of track and the Canadian Pacific has 16,000. They should get a proportion of freight in relation to the difference in mileage. I can see that the Canadian Pacific are getting more than their share, and I can well understand it when departments here in Ottawa, government departments, will send out telegrams to members of parliament over Canadian Pacific telegraph lines. I suppose there is a great percentage of the members of parliament who travel Canadian Pacific when they could travel Canadian National just as well.

Mr. MAYBANK: I do not think you are right with regard to the west.

Mr. McCULLOCH: If you are going from here to Toronto you will see most of them go by way of Canadian Pacific.

The CHAIRMAN: They are pool trains.

Mr. McCULLOCH: The idea of getting a telegram over Canadian Pacific telegraph lines from a department in Ottawa is not right.

Mr. MAYBANK: That seems to suggest that some of these services maintained here that we were speaking about may indeed be efficacious. That is a sort of answer to the question asked a while ago.

Mr. FRASER: Yes. To be perfectly fair about it there are a great many people, employees in all of these departments who have to do with the routing of traffic here and the sending of messages. What is done by any particular

department does not necessarily reflect instructions within that department. It may mean a number of things. I would not want you to think that I was criticizing existing instructions if any. I am merely giving you the facts and my own view from them. You might have a great deal of traffic routed that the deputy minister and the minister would know nothing whatever about. In fact the head of the department might know nothing about it. It finally all totals up. You see, the two railways to-day solicit for government business just as they would for any other business. The government is a highly competitive organization from the railways' point of view just the same as anybody else. They are just another customer to the two railways, unless you find here and there the view which does prevail in some departments that the business of the department should as a matter of policy be equally divided by percentage between the railways. You find that in some departments.

Mr. MAYBANK: I do not suppose Mr. Thompson has very much entertainment money, has he?

Mr. FRASER: No, we have had to cut him down.

Mr. MAYBANK: Mr. Chairman, you made a remark earlier to-day that we would probably be sitting to-morrow. Is that your view now?

The CHAIRMAN: We cannot possibly complete this business to-day.

Mr. MAYBANK: Well, so far as any questions that suggest themselves to me along this line are concerned I have about finished all that I wanted to ask. If we were going to rise at once I would desire to offer a resolution. But in view of the fact that we will be sitting again I think I shall defer doing so. I have in mind something in the way of a recommendation that the business be divided 65 and 35 or something like that. I should like to have a look at the report of the proceedings of this committee before doing that. But so far as this branch of the case is concerned I am finished for the time being. The idea I had in mind was that I want to see something of that sort get into our report to the house.

Mr. JACKMAN: Mr. Chairman, may I make one or two observations following along the general line of Mr. Maybank? It is quite obvious that both old line parties in this dominion have gone on record in fairly recent years against railway amalgamation or unification of management. Apparently it is the will of the people, as reflected in these two parties, that competition shall obtain in the dominion. We must bear in mind that if we have public ownership of one competitor and private ownership of another competitor we will have a very different situation from that which we would have in the case of a public utility like the electric light or a telephone system. That is a monopoly in that service and is a different situation from that of the railways. Perhaps it lends itself to public ownership in a much greater degree at any rate than does a situation where there are competing services. If the government enters into business there is no question but that it can drive out private business. We have an example here. If Mr. Maybank's—I won't say suggestion—if the tenor of his resolution is carried to its logical conclusion it is quite obvious that there is perhaps no stopping point in the matter of the business of the government. I might say today the government is creating over half the national income. Half the business of all of Canada would perforce go to the government-owned line. That is the logic of the situation if we admit certain premises. On the other hand, as I say, competition has been decreed by the people of Canada and it does seem to me that there should be a fair division of the governmental business rather than the weighting of it merely because the government line is owned by the government itself. There is a vast difference between government ownership and private ownership. I was just a little surprised, although I can understand the reason for it, when Mr. Hungerford said that there were no plans

for the solution of this great problem of the railways after the war. We cannot expect the same tempo of business as we are enjoying at the present time. The only solution that he offered was we have the plant here; give us the traffic and we will break even and show you some return on the money. The way the private business tackles that problem is to say, well we have too great a plant; we have to cut down our overhead; we have to cut down our services. We either have to go out of business or we have to at least break even so far as operating is concerned even though we did not show any profit. But it is a different situation with the railway. It is not essential, apparently, that they make a profit. The people want the service and competition and the government is willing to face the deficit from year to year. I presume that the directors' hands and the president's hands are to some extent tied. Certainly they must abide by the dictates of the government which owns the railway and which puts up the money to pay for the deficit of the railway. Therefore I merely wish to point out some of the underlying reasons, if you like, why the two competing systems should be maintained in a healthy condition or else they should be under one management and unified or amalgamated. But apparently that is not desirable from the standpoint of the Dominion of Canada.

Mr. MAYBANK: Since my words have served as a springboard from which Mr. Jackman has jumped, I might just make these two or three remarks. All of the remarks he has made which relate to the railways after the war on the general subject of competition, amalgamation, unification and that sort of thing are not I think germane to the inquiry at the moment.

He did say that if my proposals were carried out to their logical conclusion it would mean excluding one railroad from any governmental business at all and probably it would drive them out of business. With all respect I think that is quite wrong. What I would desire would be to make a division of business which the basic facts of the life of the two railroads would seem to suggest. We have more employees on the one to be served; we have a larger capitalization on which to pay interest and we have many more miles of track. I should like to see a division taking these facts into consideration. Not at all would I suggest that there should be a division so that one would get nothing.

I think Mr. Jackman and I are in complete agreement as to why there should be a fair division of business and that is what I want to aim at. I just do not think a 50-50 division is a fair division. So it all comes down to an arithmetical difference of opinion between us, and even if there be that and I doubt very much that there is—

The CHAIRMAN: I rather think the place for this debate is in the House of Commons. We are here for a matter of inquiry.

Mr. GRAY: I have one question to put to Mr. Fraser arising not particularly out of the traffic situation which was just discussed. I think most of the members have been circularized—certainly I have been to-day—with a special delivery letter sent by someone by the name of Bridges. I have no idea who he is at all. This letter is urging upon the government an amendment of the Customs Act to allow bonded freight to be shipped by direct route through from the United States ports to other United States ports, Detroit, Port Huron and Windsor. This circular to-day points out it will not in any way affect railway traffic for the reason that the traffic that they speak of is now utilizing trucks around the other side of the lake. I should like to have your opinion on that, Mr. Fraser, because I think it has importance particularly at this moment when all members are being circularized with this particular letter.

Mr. FRASER: I of course would not know, Mr. Gray, whether the statement that this traffic would not move by rail is a correct one or not. I certainly would not accept that without a good deal of proof because almost every ton of freight that could move by rail or by truck is very competitive traffic and the trucks would not concede it to the railways or the railways to the trucks.

Mr. GRAY: Then many of the statements could not possibly be accepted.

Mr. FRASER: As a matter of fact tremendous quantities of American traffic as you well know are moving between Windsor and the Niagara frontier, Buffalo, over these very lines, right through that territory. They are very very well patronized lines and I doubt if there is any traffic that you could say would not move by rail if this thing is allowed.

Mr. GRAY: I presume that you are alive to the situation that these people are making a very determined effort to put this through.

Mr. FRASER: We are, as a matter of fact, yes, and we are making representations to the government in connection with it.

Mr. NICHOLSON: Yesterday I raised the question on the movement of scrap metal. The Department of National War Services have carried on a very active advertising program. In western Canada there is a great deal of scrap, particularly on the farms, and the elevator companies have offered to act as collecting agencies. People have been very generous in contributing the scrap. It seems to me there is some hold up on account of the high freight rates. I realize the difficulty there. Has any statement been made as to the possibility of this scrap being moved some place where it can be of some use in our war effort?

Mr. MAYBANK: May I add something to that before an answer is given? I said yesterday I thought there had been an arrangement with the railways and the scrap iron people that they would carry it on an O.C.S. basis for a period. We did get some answer to that and I wonder if it might be added to.

Mr. FRASER: That is not quite the situation. I can give you a quick answer and that is this: perhaps there has been some confusion about the rates. As you know, we have all rail rates, and we have lake and rail rates. The lake and rail rates, of course, are lower than the all rail rates. We agreed to carry scrap all through the winter and until further notice from western Canada at the lake and rail rates rather than at the all rail rates. It was a concession. For example, if it would interest you, let us take from a point like Winnipeg to Hamilton, which is a large consuming centre. The normal all rail rate would be 51 cents on 100 pounds. That is the tenth class rate. The lake and rail rate is $44\frac{1}{2}$ cents on 100 pounds. That is $6\frac{1}{2}$ cents less. That of course usually applies only when the ~~overseas~~ navigation is in effect. We agreed to continue the $44\frac{1}{2}$ -cent rate and have continued it all through the winter and it is now in effect to all points in the east.

Mr. NICHOLSON: Have you any answer regarding the question I have raised?

Mr. FRASER: Yes, I shall be glad to answer you. Of course, we all know about the campaign to raise scrap for the national war services, and the matter was taken up with the railroad and the suggestion was that they carry the scrap from western Canada to the east at a reduced rate. We looked into that pretty carefully and it did not seem to the railway as though there was any necessity to reduce the rate for this reason: the scrap is donated; there is no original cost for it; the people are very generous about it, as I understand it, and they give their scrap and it is collected largely by voluntary effort and at very little cost. We are now moving scrap at the present rate—commercial scrap that is purchased in western Canada—without any trouble as far east as Sorel. For instance, we take scrap from Edmonton which is purchased by dealers in Edmonton for cash and sorted by them in their own time and they haven't any difficulty in shipping that scrap to Sorel at the present time and at the present rate. So it did not seem to us that the present rates were very much in the road for the movement of the scrap that was donated or collected by voluntary effort. We did not think a very good case was made out for it.

Mr. Ross: There is a fair profit at $44\frac{1}{2}$, I presume.

Mr. FRASER: Oh, well, I presume so. When you ask me just what profit there is in a specific rate I am in a different realm.

Mr. Ross: I was thinking that you might strike a carload rate.

Mr. FRASER: That is, of course, a carload rate.

Mr. Ross: I mean a lower rate. That is the actual weight you carry— $44\frac{1}{2}$ per 100 pounds.

Mr. FRASER: Yes. You could arrive at it by any way you like; it is $44\frac{1}{2}$ cents and it seems to be a pretty generous concession. I do not know of any complaints about it. That applies to commercial scrap also.

Mr. Ross: I was thinking of a story I heard about carrying fruit in the United States. It is carried at so much a box, I believe, and the fruit people made up those cases with sort of a limber side to them and in that way they put in an extra number of oranges. I did get the figures of how many millions of dollars the railroads have lost due to that little change in the orange cases so that they could put in so many more oranges.

Mr. FRASER: They paid for the case and the contents and they lightened the case and paid less.

Mr. Ross: Yes.

Mr. MAYBANK: In regard to the scrap question, there is a very large amount of scrap iron on all the farms of western Canada. Farmers just throw the stuff into a pile on the usual principle that it is better there in a pile than to throw it away because you never know when it will be useful; but it would not be worth my while to go out and get it. It is not economically collected, but there is a lot of it. Our patriotic salvage corps in various places have stirred up the farmers to bring that scrap into the small towns but there have been difficulties from there to bring it to the centre spot, Winnipeg. I gather, by the way, that they are not particularly anxious any more to use the scrap from western Canada down in Hamilton; they do not want to get them in the habit of shipping away from that territory. I understand that is the attitude of the steel people. Mr. Scully, the steel controller was talking along that line. The desirable thing in western Canada seems to be to get that to Selkirk where the rolling mill is. When that stuff is not moved it chills the enthusiasm of the people that this patriotic corps have worked on, and we would like to see some way of getting that stuff brought in because it is worth something to the country but it is not economical to collect.

Mr. Ross: It might prove economical in the long run.

Mr. MAYBANK: Yes. A gleaner in the fields is no longer considered economical although it might be if the gleaner were done at no labour cost whatever. This is something similar, and there is no cost whatever in the collection of this. Now, you never would get that business at ordinary rates because they cannot even now, from a lot of these points, afford to ship it in to us. Would you not be ahead of the game to carry that o.c.s. plus some percentage—I do not know how much but make it low.

Mr. Ross: And keep it in a separate account.

Mr. FRASER: Mr. Maybank, so I will be quite clear about the problem, I might say that the Deputy Minister of National War Services has taken a very active part, and on behalf of the minister has organized the matter. They have never asked us for any concessions on rates on scrap within western Canada. They say it presents no difficulties whatever.

Mr. MAYBANK: Of course, they could easily say that to you. I have been speaking about the work of this patriotic corps in Winnipeg. They are collecting all kinds of stuff and they are doing a land office business. In other cities the condition I have described also obtains. They are expanding and they are

taking in a little more territory every day, and yet they have not got to the point, perhaps through very busyness, of making any special representations to the department, and therefore you have not got them. I may say that I know that the railways could be a very considerable help to this patriotic movement. I am suggesting to you to break a precedent and take this up on your own initiative; to offer us something in the interest of this patriotic movement.

Mr. FRASER: Well, Mr. Maybank, I think it is quite proper to say this, that there have been a great many representations made and a good many discussions held, and the file is still open with Mr. Scully whose name you have just mentioned; and after representations had been made to him I think I am correct in saying, am I not, we are waiting to hear further from him as to what, if anything more, he has to suggest. The file is not a closed file; but I do believe this, that as I say the only request that was made to us was for rates from western Canada to the east, not within the territory itself. I understand there is a very serious question as to whether or not scrap should be moved in large quantities from western Canada to eastern Canada.

Mr. MAYBANK: That was Mr. Scully's point to me, and the steel people told me the same thing.

Mr. FRASER: There may be even a greater demand for it, perhaps, on the Pacific coast. Would it be satisfactory to say that the matter is still open with Mr. Scully.

Mr. MAYBANK: I know you will endeavour to co-operate in every way that you can in every good thing. I would like to make this suggestion to you that you suggest to somebody in your stores department out in Winnipeg, somebody from the traffic end, to get in touch with that organization or those organizations and sit in with them as a member. It would be doing a great service to them, I know, and I think on consideration you will agree that you can be of great service.

Mr. NICHOLSON: Did I understand you to say that you had not received any request for reduced rates within western Canada?

Mr. FRASER: That is correct.

Mr. NICHOLSON: I have correspondence going back to December, the time that this appeal was made to patriotic organizations in my constituency, and they have been very anxious to make some contribution in this field. They feel that they can make it without any great sacrifice; but from what information I have the rates from northern Saskatchewan to Winnipeg are still so high that there is nothing for the patriotic organizations worth speaking of after they pay the freight on this scrap brought into Winnipeg.

Mr. FRASER: If this is an order, one of the things that causes us difficulty is this: scrap to-day from northern Saskatchewan, from as far west as Edmonton, is being bought and paid for at \$1 a ton or \$2 a ton—I do not know what—and collected and shipped on the existing rate and sold at a profit.

Mr. DONNELLY: That is not true in my district. We had men down there collecting scrap and sending it to Vancouver where it was being sold and shipped to Japan and when the rates went up they stopped. I am told by the department here that it cannot be shipped out and they are trying to make arrangements with the railroad to get a cheaper rate so it can be shipped. They say at the present time there is not enough in the scrap to pay for the rate. The individual shipper told me that himself.

Mr. FRASER: Doctor, that may be perfectly true in that place; but scrap is moving in large volume.

Mr. DONNELLY: Not scrap iron; perhaps certain other scrap like aluminum or brass, but not scrap iron.

Mr. FRASER: Scrap iron, yes, doctor, is moving to-day.

Mr. Ross: The side of this question that Mr. Scully referred to does not centre in western Canada alone. He is reviewing the eastern region and the central.

Mr. FRASER: He may be. There did not seem to be the same problem in the east.

Mr. Ross: It exists all over.

Mr. FRASER: The rate did not seem to be in the road because you see the market generally is east. Hamilton is a good case. The scrap collected at North Bay, if the rate is the problem, is nothing in itself compared to the rate from Edmonton, because it is so much larger per ton. They have to overcome that.

Mr. Ross: We understand the war effort and the effect it has on people in general in collecting this stuff and shipping it. They are giving their time and attention in the collection of it, and I was wondering if Mr. Scully was going to fit in all the regions.

Mr. FRASER: I have no doubt he will. It was not the thought of anybody that if the price of scrap was sufficient to pay all charges the larger rate would be reduced to allow a profit for somebody. This was a voluntary effort by people who did not require or did not ask for a profit. It was approached on that basis, that if the price at destination was sufficient to provide the handling charges and out-of-pocket costs and the rate that the situation was met. Now, it was our opinion the last time we looked at it that that was the condition, and I still think that it was a striking fact that for the same price at destination scrap can be purchased at Edmonton by dealers and shipped to Sorel paying the rates. It would look as though there was a profit somewhere in it in our judgment to take care of out-of-pocket costs and reward the very fine enthusiasm of the people who are doing it. If that is not so, it does, I agree, become a different problem.

Mr. Ross: I would not want the mills to state that they were short of scrap and to say that the reason was because of the freight rates, on any condition.

Mr. NICHOLSON: In my constituency there is only one place with a population of over 1,000. We have not got any scrap dealers or anyone with any experience in sorting or handling this stuff. The people are very generous. I have been reading instructions to the scrap dealers regarding the breaking up of the scrap and sorting it. We do not have people who know how it should be placed on the market, and it is quite an eye-sore to have this accumulation of scrap, and perhaps you will agree that it is bad for the morale of the people to have this scrap contributed by people who feel that it is a necessary and useful contribution and then to have it stay there for months without going any further.

Mr. FRASER: I suggest that it would seem arguable that if a dealer was given that scrap for nothing, if there was any quantity of it, that he would have no trouble in shipping now if he could actually buy it and pay cash for it and ship it at present rates from Edmonton.

Mr. VAUGHAN: I think the situation is entirely in the hands of the steel controller. He fixes the price that scrap is to be sold at at various places. The price is fixed at the mills and after deducting our freight rates there must be a substantial sum left for the shipper.

Mr. MAYBANK: Mr. Vaughan, I suggest to you that there may be many piles of scrap iron in places from where it would be false economy to ship. I understand it is much more complicated than persons like myself might think.

Mr. VAUGHAN: I may say that the Department of National War Services asked for the services of Mr. Keller, our general storekeeper in Winnipeg to make a complete survey, and I think he has completed that survey in the west. I believe as a result of that survey the department has got all the infor-

mation it needs. I think it lies within Mr. Scully's powers to take whatever action is necessary to rectify any inequality so far as price is concerned.

The CHAIRMAN: I think, gentlemen, that we have had a pretty fair discussion on this subject. We have not moved a single inch this afternoon.

Mr. GRAY: We have had a very constructive afternoon.

Mr. MAYBANK: We may have got a lot of new business for the Canadian National Railways whether you know it or not.

Mr. JACKMAN: I am concerned about one item we took up this morning regarding the capital loss on the sale of the steamships *Prince David* and *Prince Robert*. Since this morning I have had a chance to talk to the Minister for Naval Services about the price the government paid the railway system for those boats, and he tells me that in his opinion although there was some bargain that the government paid a fair price. So this morning I put forward two propositions, either one of which I thought must fit the case, and now I must add a third to that: it is possible that the original cost of those two ships was so high that notwithstanding what might be considered adequate depreciation at 3 per cent per year it was insufficient to bring the capital cost down to what you would receive for them, for the two ships, even in a favourable market; so I suppose that the cost of those boats was very much higher than should have been the case. They must have been bought at a time when prices were unusually high and stood on the books of the system at an exceptionally high price. Is that the case?

Mr. COOPER: The boats were completed in 1930. I gave the cost this morning at \$4,329,000. Whether that was too much or not I could not say.

Mr. JACKMAN: Did those two boats ever earn any money?

Mr. COOPER: They were not profitable to the railway.

Mr. JACKMAN: They did not earn any money as far as you know. Had you been using them in recent years?

Mr. COOPER: Oh, yes, the *Robert* was in service more or less every summer on the Pacific coast. The other had been tied up for two or three years.

Mr. JACKMAN: The *Robert* had been in service during the summer months?

Mr. COOPER: Yes, on cruising service on the Pacific coast.

Mr. JACKMAN: And the other boat had been tied up. It is rather alarming to find that we have one of the capital assets realizing so much less than it is carried on the books at depreciated cost value when a favourable time for disposition comes and a favourable market obtains for ships. It makes one wonder just how much of the assets are rather spongy that way.

Mr. COOPER: Well, as far as we are concerned, the problem is not the value of the assets, it is the amount of liability which we have to carry. That is the problem: to meet the charges on the liabilities which are attached to the railway today. What the value of the Canadian National Railways system is I do not know and no one else does; it will depend upon how you measure value, and value has a variety of definitions.

Mr. JACKMAN: It is difficult to be able to comprehend whether the operations of the road are being carried on well in relation to the capital value; whether a great many of the assets included in that capital value are in at excessively high figures as these two boats apparently were.

Mr. COOPER: I do not think you could draw that conclusion from a solitary instance of this sort.

Mr. JACKMAN: It is the only instance—

Mr. COOPER: It is a broad deduction to take.

Mr. JACKMAN: It is the only instance where a capital asset has been realized upon within the last twelve months, and with this coming to light

it is rather alarming to think that those capital assets are, perhaps, worth so much less than they are carried on the books of the company. What I should like to get is an expression of opinion from someone in the management as to whether or not the capital costs of the assets of the system are in their mind reasonable. Are they useful, earning assets such as might be expected to give a return? I realize, of course, that if you get enough traffic all problems are solved; on the other hand I think in a case like the steamships the depreciated cost was in excess of what you could ever expect from them unless you had them for years.

Mr. McCULLOCH: We are not making any progress.

The CHAIRMAN: Yes, we passed this long ago.

Mr. JACKMAN: I wanted to get a little light on these things, and as things develop we ask for light.

The CHAIRMAN: We debated that matter for half an hour this morning and finally adopted it. Now, we are at page 20, "funded debt, principal and interest".

Mr. JACKMAN: Is this the place you were going to tell me about those equipment trust certificates?—the \$9,000,000.

Mr. COOPER: No, sir. I suggest you wait until the budget comes up. Not that I am trying to postpone it, but let us get things in their proper place.

The CHAIRMAN: Shall this subject carry?

(Carried)

The CHAIRMAN: Page 21 "investments in affiliated companies".

Mr. EMMERSON: What is this Toronto Terminal Railway Company?

Mr. COOPER: The Toronto Terminal Railway Company is a company owned jointly by the Canadian National and the Canadian Pacific, and it owns the passenger station at Toronto.

Mr. EMMERSON: That is just a nominal value put on there; that does not represent anything of the value of the assets of that company, does it?

Mr. COOPER: No, this amount of stock is issued to provide the company with working capital. The investment in railway facilities was covered by an issue of Toronto Terminal Railway bonds. They financed the construction of the property by an issue of bonds. They provided themselves with working capital by an issue of capital stock. That is why the amount is relatively small.

Mr. EMMERSON: Is that the union station?

Mr. COOPER: Yes.

Mr. EMMERSON: Could you tell me the cost of that terminal?

Mr. COOPER: It was around \$26,000,000. I have not the exact figure here, but it was around that amount.

Mr. EMMERSON: That would be about \$3,000,000 less than the cost of the Montreal terminals—the estimated cost?

Mr. ARMSTRONG: That is the expenditure by the Toronto Terminal Railway Company, roughly \$26 million; that does not take into consideration the full amount spent on the Toronto viaduct which included the grade separation and the station, a total cost of \$40 million—slightly over \$40 million.

Mr. EMMERSON: Forty million dollars was expended in Toronto as against \$29 or \$30 million required to be spent in Montreal?

Mr. ARMSTRONG: Yes, that is correct; this is the expenditure on both railways; the other is an expenditure on one railway, of course.

The CHAIRMAN: Any further discussion?

Mr. HANSON: There is that item Vancouver Hotel Company Limited \$150,000 and \$75,000. Would you explain that.

Mr. COOPER: That again is the issue of capital stock by the Vancouver Hotel Company to provide itself with working capital. The Vancouver Hotel Company is a company owned jointly by the Canadian National and the Canadian Pacific; they each hold 50 per cent interest. The building itself is owned by the Canadian National Railways, and the Hotel Company is simply the operating company. The Canadian National have the lease.

The CHAIRMAN: "Major Contingent Liabilities". Do you wish to make any statement with regard to those liabilities Mr. Armstrong?

Mr. ARMSTRONG: I do not think so, sir.

Mr. HANSON: There is one thing about this contingent liability which I wish to say. This committee has had before it for the last ten years the suggestion that the railway company and the government should try to liquidate those perpetual bonds. Has anything been done on that this last year? I think we were told that they would try to do something. Has anything been done in the way of a reduction?

Mr. COOPER: The Grand Trunk 4's, \$119 million, that is the biggest. The issue was made the subject of a vesting order by the U.K. Treasury, and has been taken up with the exception of a small amount which is not held in the U.K. or is not subject to the vesting of it. So far no action has been taken with respect to the other issues.

Mr. HANSON: That one issue has been taken up this last year.

Mr. COOPER: Since October—a matter of 22½ million pounds.

The CHAIRMAN: Page 22 "schedule of companies comprising the Canadian National Railway system."

(Carried).

Page 23. That is a continuation of the same thing.

(Carried).

Page 24. "Statement of Revenue Tonnage by Commodities for Years 1940-1939".

Mr. NICHOLSON: In connection with this item on wheat, what is to be the picture for 1941?

Mr. HUNGERFORD: That is too obscure.

The CHAIRMAN: That is counting your chickens before they are hatched.

Mr. NICHOLSON: In view of the fact that there would be a traffic reduction in the amount of wheat accepted by the wheat board I thought you might have some idea of what effect that might have on your volume.

Mr. HUNGERFORD: I think it is all conjectural; there is no basis on which you can give any reasonable estimate.

(Carried).

The CHAIRMAN: Page 25 "revenue tonnage by commodities continued."

(Carried).

Page 26, "Details of railway equipment."

Mr. HANSON: Have you been handicapped since the outbreak of war by any shortage of equipment because of the war?

Mr. ARMSTRONG: There is no shortage of equipment yet.

Mr. McCULLOCH: Are there to be any other cars supplied this year in addition to the amount you gave me this morning?

Mr. ARMSTRONG: These are shown as supplied in 1940.

Mr. McCULLOCH: To be supplied in 1941?

Mr. ARMSTRONG: The budget for 1941 includes certain equipment. The Minister suggested this morning that equipment be dealt with when the 1941 budget is considered.

The CHAIRMAN: Is there any further discussion with regard to this page? Items agreed to.

The CHAIRMAN: Page 27, "Statistics of rail line operation."

Mr. JACKMAN: After all, these statistics obviously cannot mean very much to us unless we can make a check study of them. I presume they are prepared by the management for some reason. An occasional comment might be useful to us. They are not just prepared for nothing. Would someone in the management not care to draw attention to an occasional item that is of some consequence?

Mr. ARMSTRONG: Mr. Hungerford is his statement called attention to several figures which summarized particularly the freight operation. The figures that you see here are the basic figures.

Mr. JACKMAN: We find in Mr. Hungerford's statement all these things that we want high-lighted.

Mr. ARMSTRONG: I would say those would be the high-lights, for 1940.

The CHAIRMAN: Carried?

Items agreed to.

The CHAIRMAN: Page 28, "Employees and their compensation."

Mr. HANSON: I should like to ask a question with regard to the average mileage of road operated and cost of operation. How does it compare with the American roads in similar situations? How does your percentage cost compare in operating expenses with the American roads?

Mr. ARMSTRONG: Per mile, sir?

Mr. HANSON: Yes.

Mr. ARMSTRONG: It would depend entirely upon the volume of traffic. The American roads on the average have a much heavier density of traffic than we have. Therefore their operating expenses per mile of road would be substantially greater than ours.

Mr. HANSON: Greater?

Mr. HANSON: For some years we had an analysis of the tonnage and the average.

Mr. HANSON: For some years we have had an analysis of the tonnage and so forth. Have you that now?

Mr. ARMSTRONG: We have not made such an analysis for 1940, but we can very easily do so, similar to the figures which we filed a few years ago.

Mr. HANSON: I think that would be very useful information to the committee.

The CHAIRMAN: "Employees and their compensation."

Mr. NICHOLSON: Before you go on with that I should like to mention this: I inquired yesterday about the revenue losses in different operations of the system. I did not get that information. Have you any idea as to where your best paying districts are?

Mr. ARMSTRONG: Very much so.

Mr. NICHOLSON: How about this item of freight revenue? Can you give me any information as to different districts or divisions where you are making the most money?

Mr. ARMSTRONG: Well, some two or three years ago there was filed at the Senate inquiry on railways in Canada, a map which indicated where the paying lines of the Canadian National were. It was requested, I think, by the chairman of the committee. It was admittedly an arbitrary division of the revenues and an arbitrary division of the expenses, but it did bring out the lines which were paying all their charges including interest, or that

they had paid only their operating expenses, or even did not pay their operating expenses. I could give you a copy of that in a small form. The lines are shown in three different colours demonstrating the three different categories of the various lines.

Mr. NICHOLSON: That was prepared three years ago.

Mr. ARMSTRONG: That was in the year 1938.

Mr. NICHOLSON: You did not try to bring that sort of thing up to to-day?

Mr. ARMSTRONG: No. We know, for instance on which line the greatest density of traffic occurs. That is calculated every year particularly for designing our maintenance program to know what traffic there is over each subdivision. The engineers use that in arriving at what the expenses should be on the various lines on which there is varying traffic density; but we do not go into the question of allocating revenue and expenses to each individual section of the line. It must be done arbitrarily anyway.

Mr. NICHOLSON: You do not do anything like that to show where your bright spots are or where your black spots are in the system?

Mr. ARMSTRONG: Not by lines. As I said previously, we have certain figures on the actual expenses of each region, but that is not really a good test of the region, because, for example on the Atlantic region, the cars which are repaired at Moncton may move over all other parts of the system. The expenses may be in one place, at one location, and the actual use in another. So you must use an arbitrary division in getting the expenses divided geographically. It is a very difficult problem and one that can only be arbitrary.

Mr. HANSON: I think Mr. Armstrong is looking for some information.

Mr. ARMSTRONG: We had some figures taken up here, Mr. Hanson, showing a comparison of certain units and operating performance of the Canadian National with class 1 U.S. roads. These were the average of class 1 U.S. roads for the year 1940 and for one purpose we compared it with the year 1923 to see what improvement had been made by the Canadian National system as compared with what improvement had been made by the class 1 U.S. roads. The tabulation shows that in some units we have improved less than the class 1 roads; in other units we have improved more. I think the judgment you would get from reading this is that the improvement is pretty close to 50-50. They are all statistical technical averages such, for instance, as this: the gross ton miles per train hour. We show an improvement of 76 per cent; class 1 roads show 101 per cent over that particular period. There are others here: car miles per car day. We show an improvement of 50.8 per cent averaged over a 17-year period. The class 1 roads are a little less than 26 per cent. I do not know whether that answers your question or not. I have not got the C.P.R. percentages of these particular costs here. We have compared ourselves with the class 1 U.S. roads because our accounting is largely on the same basis as class 1 U.S. roads.

Mr. NICHOLSON: What information have you in connection with the revenue and expenses in connection with operating oil- gas-electric trains?

Mr. ARMSTRONG: We have the expenses worked out as to the revenue, but I do not think we have them tabulated. The only answer that we can give there is this: We know that in certain cases gasoline-electric cars can be operated much more cheaply than some other services and will fit in very well with the requirement, and that is the reason they have been put on. In some cases there is sufficient revenue to pay expenses; in other cases there is not. Some of these light traffic lines where we use these gas cars come under the category that was previously mentioned, the lines which are operated in the public interest but in which there is a loss even on operation.

Mr. NICHOLSON: You have not been purchasing many of these recently, have you?

Mr. ARMSTRONG: No, I do not think we have had any gas-electric cars for several years.

Item agreed to.

The CHAIRMAN: "Distribution of the dollar." Do you want to study that on page 28?

Mr. EMERSON: I should like to ask another question with regard to the density of traffic. Do you tabulate from year to year the changes in density of traffic in different sections? For instance, a certain section may have a maximum density as compared with other sections on the system. What section of the road had the greatest density in 1940?

Mr. ARMSTRONG: I would say the Toronto-Hamilton or the Hamilton-London would have the greatest traffic density. I am speaking of freight there, of course, and in that case passengers too.

The CHAIRMAN: "Distribution of the dollar." Do you want to study that?

Mr. NICHOLSON: I notice in connection with the first item that labour is getting a smaller percentage of the dollar in 1940 than it got in 1939. Would that be used by the unions with a view to getting an increase in pay? Would this be used as an argument for an increase in pay?

Mr. ARMSTRONG: I do not know if they would use it, but if they did use it I do not know that it would stand up very well.

Mr. NICHOLSON: What would be the reason against it?

Mr. ARMSTRONG: To a statistical average such as that, I do not know. You would probably find an answer to it.

Item agreed to.

The CHAIRMAN: Page 29, "Operated mileage, December 31, 1940." Is there any discussion on that?

Mr. HAZEN: What tracks are under lease in the Atlantic region? I notice one here 6.41 miles. Is that rented from somebody?

Mr. ARMSTRONG: It is the Acadia Coal Company.

Mr. HAZEN: Where is that?

Mr. ARMSTRONG: It is at Stellarton.

Mr. HAZEN: The Acadia Coal Company own that line?

Mr. HUNGERFORD: I think it is the so-called Vale Railway.

Mr. HAZEN: What do you call it?

Mr. HUNGERFORD: The Thorburn branch down near New Glasgow.

Mr. HAZEN: Do you rent that from somebody?

Mr. HUNGERFORD: Yes.

Mr. HAZEN: How do you fix your rent for it? How is that worked out? What rent do you pay?

Mr. HUNGERFORD: We pay a flat rate per year, \$1,200.

Mr. HAZEN: Take the Central Vermont line. What do you pay for that a year? What do you pay for that 125 miles of track?

Mr. COOPER: \$222,000.

Mr. HAZEN: A year?

Mr. COOPER: Yes.

Mr. NICHOLSON: In connection with the lines in the United States, has there been a decrease in revenue since the war?

Mr. ARMSTRONG: No, there has been an increase.

The CHAIRMAN: Is page 29 carried?

Mr. NICHOLSON: What is the picture in connection with the business on the American line?

Mr. ARMSTRONG: It is increasingly improving.

Mr. COOPER: It had an increase in traffic last year of 14·5 per cent.

Mr. HAZEN: Between what points does the Central Vermont line run?

Mr. ARMSTRONG: It runs really from Montreal, a part from Montreal to New London with a few branches. The actual line comes in at St. Johns where they meet the Canadian National and at the other end they go down as far as White River junction where they then have running rights over B. & M. again and on their own line into New London after that.

Page 29 agreed to.

Mr. McCULLOCH: I move the adoption of this report.

The CHAIRMAN: Mr. McCulloch moves that the report be adopted.

Motion agreed to.

The CHAIRMAN: Now, gentlemen, before we go any further we will have to decide on a question that comes up right here. We of the Liberal party have a caucus to-morrow morning and cannot have this room. Probably we cannot go anywhere else. We might overcome that difficulty partially by meeting to-night.

Mr. NICHOLSON: Would there be another room some place else?

The CHAIRMAN: We might find another room, but we have a caucus. We can't have both a meeting and a caucus at the same time.

Mr. JACKMAN: There is also a limit to physical endurance. Personally I am very much against meeting to-night unless there are very, very compelling reasons why we should. It is very trying to sit in this hot room all day and at night, and I am very tired now because of the humid atmosphere.

The CHAIRMAN: If the committee is not desirous of sitting to-night then we will abandon the idea.

Mr. NICHOLSON: Agreed to.

The CHAIRMAN: All right, now that is carried. The next report is that of the Canadian National Securities Trust.

Mr. HUNGERFORD: I will ask Mr. Maclennan, the chief treasury officer of the department, to read it.

Mr. MACLENNAN:

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

OTTAWA, March 19th, 1941.

The Honourable P. J. A. CARDIN, M.P.,
Minister of Transport,
OTTAWA.

SIR,—In conformity with Section 23 of The Canadian National Railways Capital Revision Act, 1937, the Trustees submit the following report of the transactions of the Canadian National Railways Securities Trust for the calendar year 1940.

The initial stated value of the Capital Stock of the Securities Trust has been increased during the year by \$1,694,179.20, this being the amount by which capital gain exceeded the capital losses during the year.

The items of capital losses during 1940 in respect of which His Majesty has not made cash reimbursement to the Railway, and the item of capital gain which has been accounted for by the Railway through the Proprietor's Equity Account, are shown hereunder:

STANDING COMMITTEE

ABANDONMENTS, DISMANTLEMENTS, ETC.

St. Martins Branch	28.75 Miles	\$ 355,420 90
Fortierville to St. Gregoire	27.25 "	584,856 30
Carbo to Cushing Jct.	24.60 "	825,846 87
Two Rivers-Cache Lake	4.12 "	160,971 05
Oshawa Electric Railway	3.38 "	161,016 45
Alvinston to Kingscourt	9.68 "	123,098 14
Sellwood Branch	4.50 "	123,139 85
Total abandonments, dismantlements, etc.....		\$2,334,349 56
Capital loss (exclusive of loss applicable to expired service life) on sale of S.S. <i>Prince David</i> and <i>Prince Robert</i>		1,474,971 24
Capital gain on redemption of £22,500,000 G.T.R. 4% Perp. Debenture Stock acquired under order of H.M. Treasury of the United Kingdom dated 26th October, 1940, and Dominion of Canada P.C. 6002 dated 25th October, 1940.....		5,503,500 00
Net capital gain		<u>\$1,694,179 20</u>

With regard to the capital gain, the outstanding funded debt of the Canadian National Railway Company has included £24,624,455 of 4% Perpetual Consolidated Debenture Stock issued by the former Grand Trunk Railway Company of Canada, payment of the interest on which was guaranteed by the Dominion pursuant to the provisions of The Grand Trunk Railway Acquisition Act, 1919. Under an Order dated 26th October, 1940, made by H.M. Treasury of the United Kingdom, such portion of the said Debenture Stock as was held by residents in the United Kingdom was transferred to the Treasury. The vesting price was £103.17.4 per £100 stock surrendered, payable 26th November, 1940, plus £0.7.1 accrued interest. The vesting order was made upon the condition that the Canadian National Railway Company would purchase the stock from the Treasury at the vesting price. By Order in Council P.C. 6002 dated 25th October, 1940, made under and by virtue of the Canadian National Railways Financing and Guarantee Act, 1940, and the War Measures Act, the Railway Company was authorized to purchase the securities and the Minister of Finance was authorized to make loans to the Company for the purpose, such loans to bear interest at the rate of $3\frac{1}{2}\%$ per annum, to be repayable on demand, and secured by promissory notes and the said securities so purchased.

At the date of closing the 1940 accounts of the Railway Company the amount of securities held by residents of the United Kingdom had not been definitely determined, so the accounts have been closed on the basis that a total of £22,500,000 will be redeemed and any necessary adjustment will be entered in the Company's accounts for the year 1941. The redemption of this amount at the prevailing sterling exchange rate effects a reduction in the outstanding debt of the railway of \$5,503,500. This has been accounted for as a capital gain through the Proprietor's Equity Account.

There were no transactions during the year affecting the collateral securities held by the Securities Trust.

The Trustees present herewith the Balance Sheet of the Securities Trust as at 31st December, 1940.

For the Trustees,

W. C. CLARK,
Chairman.

Mr. Chairman, the next two pages deal with the balance sheet and so forth. Do you want me to read that?

Mr. JACKMAN: Take it as read.

The CHAIRMAN: All right.

Mr. MACLENNAN:

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

BALANCE SHEET AT 31ST DECEMBER, 1940

ASSETS		LIABILITIES	
<i>Claims for Principal of Loans—</i>		<i>Capital Stock Owned by His Majesty—</i>	
Canadian Northern Railway.....	\$ 312,334,805 10	5,000,000 shares of no par value capital stock, having an initial stated value of.....	\$ 270,037,437 88
Grand Trunk Railway.....	118,582,182 33	<i>Less: Capital net losses of the National Railway System subsequent to 1st January, 1937—not reimbursed by His Majesty:—</i>	
Grand Trunk Pacific Railway.....	116,006,599 08	To 31st December, 1939.....	\$6,025,011 46
Canadian National Railway Company.....	96,936,971 75	Year 1940 (Gain) 1,694,179 20	4,330,832 26
			\$ 265,706,605 62
<i>Claims for Interest on Loans—</i>		Amount by which the book value of claims and interest thereon—per contra—exceeds the book value of the capital stock as shown above.....	
Canadian Northern Railway.....	\$ 309,702,897 65		952,935,589 65
Grand Trunk Railway.....	103,250,802 95		
Grand Trunk Pacific Railway.....	107,326,622 84		
Canadian National Railway Company.....	54,501,313 57		
			\$ 1,218,642,195 27
<i>Collateral Securities—</i>			
As per Schedule A.1.....			

T. H. COOPER,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of The Canadian National Railways Securities Trust for the year ended the 31st December, 1940.

There have been produced for our inspection the Notes and Other Evidences of Indebtedness, the Collateral Securities and the Certificate of the Special Depositary, as set out in Schedule A.1 attached hereto.

We certify that, in our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the accounts of the Trust as at the 31st December, 1940, in accordance with the provisions of The Canadian National Railways Capital Revision Act, 1937.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

18th March, 1941.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST
SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT TO THE SECURITIES TRUST

SCHEDULE A. 1

Loans Outstanding

CANADIAN NORTHERN RAILWAY—	
3½% Loan, Chapter 6, 1911.....	\$ 2,396,099 68
4% Loan, Chapter 20, 1914.....	5,294,000 02
5% Loan, Chapter 4, 1915.....	10,000,000 00
6% Loan, Chapter 29, 1916.....	15,000,000 00
Temporary Loan, 1918, repaid.....	.....
*6% Loan, Chapter 24, 1917.....	25,000,000 00
*6% Loan, Vote 110, 1918.....	25,000,000 00
*6% Loan, Vote 108, 1919.....	35,000,000 00
*6% Loan, Vote 127, 1920.....	48,611,077 00
*6% Loan, Vote 126, 1921.....	44,419,806 42
*6% Loan, Vote 136, 1922.....	42,800,000 00
6% Loan, War Measures Act, 1918.....	1,887,821 16
*6% Equipment Loan, Chapter 38, 1918.....	56,926,000 82
Indebtedness refunded by Government under Chapter 24, 1917, and Chapter 11, 1918.....	.....
*Mortgage covering loans above.....	.....

Total Canadian Northern.....\$312,334,805 10

GRAND TRUNK RAILWAY—

6% Loan, Vote 478, 1920.....	\$ 25,000,000 00
6% Loan, Vote 126, 1921.....	55,293,435 18
6% Loan, Vote 137, 1922.....	23,288,747 15
4% Loan to G.T. Pacific Chapter 23, 1913, guaranteed by Grand Trunk.....	15,000,000 00
Temporary Loans, repaid through subsequent issues of guaranteed securities and loans.....	.....

Total Grand Trunk.....\$118,582,182 33

GRAND TRUNK PACIFIC RAILWAY—

3% Bonds, Chapter 24, 1913.....	\$ 33,048,000 00
6% Loan, Chapter 4, 1915.....	6,000,000 00
6% Loan, Vote 441, 1916.....	7,081,783 45
6% Loan, Vote 444, 1917.....	5,038,053 72
6% Loan, Vote 110, 1918.....	7,471,399 93
Receiver's Advances, P.C. 635, March 26, 1919.....	45,764,162 35
Interest Guaranteed by Dominion.....	8,704,662 65
Interest Guaranteed by Provinces of Alberta and Saskatchewan.....	2,898,536 98
Agreement with Government under Chapter 71, 1903.....	.....

Total Grand Trunk Pacific.....\$116,006,599 08

*Notes and Collateral Held

None. Charge is on premises mortgaged Oct. 4, 1911.	
None.	
None.	
Mortgages dated June 23, 1916.	
6% Demand Notes.....	\$ 497,566 80
6% Demand Notes.....	33,012,414 32
6% Demand Notes.....	27,203,003 65
6% Demand Notes.....	40,031,122 27
6% Demand Notes.....	53,008,779 65
6% Demand Notes.....	50,259,312 47
6% Demand Notes.....	46,691,634 60
6% Demand Note.....	5,700,000 00
4% Debenture Stock.....	1,975,866 00
3½% and 4½% Debenture Stocks.....	7,139,399 00
6% Demand Notes.....	56,858,496 44
{Miscellaneous Bonds and Debentures.....	24,573,539 90
{Miscellaneous Bonds and Debentures.....	668,000 00
{Miscellaneous Bonds and Debentures.....	20,721,191 12
Mortgage dated November 16, 1917.	

6% Demand Notes.....	\$ 25,479,226 97
6% Demand Notes.....	56,646,816 12
4% G.T. Pacific Mortgage Bonds.....	10,000,000 00
6% Demand Note.....	23,288,747 15
{4% Demand Note.....	15,000,000 00
{4% G.T.P. Debentures.....	15,000,000 00
{4% Debenture Stock.....	60,801,700 00
{6% 2nd Mortgage Equipment Bonds.....	1,693,113 33
3% 1st Mortgage Bonds.....	\$ 33,048,000 00
4% Sterling Bonds.....	7,499,952 00
Mortgage, June 28, 1916.....	.....
Mortgage, Oct. 18, 1917.....	.....
Mortgage, Oct. 18, 1917.....	.....
Receiver's Certificates.....	53,339,162 74
Cremation Certificates, coupons destroyed.....	8,698,170 42
Cremation Certificates, coupons destroyed.....	2,925,723 88
Grand Trunk Pacific Development Company Capital Stock	2,999,000 00

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST
SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT TO THE SECURITIES TRUST
* Notes and Collateral Held

Loans Outstanding

CANADIAN NATIONAL RAILWAY COMPANY—

6 % Loan, Vote 139, 1923.....	\$ 24,550,000 00	{ 6% Canadian Northern Demand Note.....	\$ 12,655,019 57
5 % Loan, Vote 137, 1924.....	10,000,000 00	{ G.T.P. Receiver's Certificates.....	3,313,530 01
5 % Loan, Vote 377, 1925.....	10,000,000 00	{ G.T.P. Interest Coupons.....	1,925,706 96
5 % Loan, Vote 372, 1926.....	10,000,000 00	{ 5% Canadian Northern Demand Note.....	1,318,315 86
5 % Loan, Vote 336, 1929.....	2,932,652 91	{ G.T.P. Receiver's Certificates.....	4,691,173 58
5 % and 5½ % Loans, Chapter 22, 1931.....	29,910,400 85	{ G.T.P. Interest Coupons.....	1,925,706 96
5½ % Loans, Chapter 6, 1932.....	11,210,815 56	{ 5% Canadian Northern Demand Note.....	9,496,718 21
Temporary Loan 1930, repaid.....	.....	{ G.T.P. Receiver's Certificates—Cr.	1,422,425 17
Temporary Loan 1930, repaid.....	.....	{ G.T.P. Interest Coupons.....	1,925,706 96
Less: adjustment authorized.....	1,666,897 57	{ 5% Canadian Northern Demand Note.....	9,062,624 30
Total Canadian National Rly. Co.	\$ 96,936,971 75	{ G.T.P. Receiver's Certificates—Cr.	364,898 78
Total Loans.....	\$643,860,558 26	{ G.T.P. Interest Coupons.....	1,925,706 96
		5 % Can. National Rly. Co. Demand Note.....	2,932,652 91
		5 % and 5½ % Can. Nat. Rly. Co. Demand Notes.....	29,910,400 85
		5½ % Can. National Rly. Co. Demand Notes.....	11,210,815 56
		166,877-6376 shares of Capital Stock of Grand Trunk Western Railroad.....	4,171,940 94
		5 % 1st and General Mtge. Temporary Gold Bonds of Central Vermont Railway, Inc.	8,609,000 00

* The Notes and Other Evidences of Indebtedness and the Collateral Securities are all held for safekeeping in the Vaults of the Department of Finance, Ottawa, excepting Grand Trunk Pacific Railway 3% 1st Mortgage Bonds in the amount of £5,307,000 (\$25,792,020) which are held for safekeeping by the Bank of Montreal, London, England, as evidenced by the certificate of that depositary.

The CHAIRMAN: Do you want to consider it?

Mr. JACKMAN: You will have to excuse my ignorance on these matters but I should like to know what the Canadian National Trust is. What is the purpose of the formation and what function does it perform?

Mr. COOPER: With regard to the Securities Trust, may I read a note which I have here? This question was asked last year and I made an effort to explain.

Mr. JACKMAN: I came in at the middle of the committee last year.

Mr. COOPER: I thought perhaps if I prepared a memorandum it would be more explanatory than any extemporaneous remarks I could make.

The Securities Trust is a corporation created under section 12 of the Canadian National Railways Capital Revision Act, 1937. Its outstanding capital stock consisting of five million shares of no par value was all issued to the Minister of Finance to be held on behalf of His Majesty. The trustees are the Deputy Minister of Finance, the Deputy Minister of Justice, the Deputy Minister of Transport, the president of the Canadian National Railways, and the vice-president of finance, Canadian National Railways.

The trusteeship was arranged to take over from the dominion government the obligations of the various railway companies (the Grand Trunk, Canadian Northern, Grand Trunk Pacific) forming the Canadian National Railway system for loans, advances and accrued interest made by the government to the railway companies mentioned. That is, the railway companies are now obligated to the Securities Trust in the same way and to the same extent as they previously were obligated to the government.

The purpose of this arrangement was to permit the elimination from the railway balance sheet of liabilities to the government for amounts advanced for deficits and accrued interest but at the same time to continue such liabilities on an inter-system basis in favour of the trust as against the railway companies in order not to improve the position of certain securities which ranked paripassu with or junior to the government's claims. The removal of such liabilities from the railway balance sheet was a sound proceeding in itself but it had the highly desirable effect of eliminating a serious duplication of liabilities when those of the railway system were added to the public debt of Canada.

Such loans from the government as had been used for capital expenditures or debt redemption amounting to some \$270 millions were capitalized through the medium of the capital stock of the Securities Trust and continued in the railway balance sheet as part of the "Proprietor's equity account" which is equivalent to the share capital account. Capital gains or losses by the railway subsequent to the initial determination of value of the capital shares of the trust are excluded from the annual deficit of the railway (met by an appropriation of parliament) and are dealt with as increasing or reducing the value of the shares in the balance sheets of the railway and of the trust.

Mr. JACKMAN: It is a financial clearing account between the government and the railway system.

Mr. COOPER: Yes, we interjected this trusteeship, the trustee being a corporation comprised in the national system, so that the liabilities of the constituent corporations should be to a system corporation rather than to the government itself without relieving the debtor corporations of their liability.

Mr. JACKMAN: The Canadian National Railways Securities Trust does not appear on the balance sheet.

Mr. COOPER: The share capital of the trust is included in the capital liabilities of the system.

Mr. JACKMAN: Yes, I see it.

Mr. COOPER: Under the heading of "Proprietor's equity account", the second item in that group.

Mr. JACKMAN: Yes, I see it.

Mr. COOPER: It represents the five million shares.

Mr. JACKMAN: Yes.

Mr. COOPER: As the railway makes gains or losses on capital account as distinct from operating losses the value of the shares of the trust increases or diminishes and we make the correction accordingly. The committee if I may say so, has already approved of the railway balance sheet and of the items which brought about the change in the value of the shares during the year. All you do when you look at the balance sheet of the trust is to see the other side of the picture; there is not any difference.

Mr. JACKMAN: I shall have to study it some time.

The CHAIRMAN: Is there any discussion of this report?

Mr. HANSON: I move that the report be adopted.

The CHAIRMAN: It is moved that the annual report of the Canadian National Railways Securities Trust be adopted.

(Carried.)

There is hardly time now to start on a new report, so if it is the wish of the committee we will meet to-morrow afternoon at 3.30.

The committee adjourned to meet Thursday, May 22, at 3.30 p.m.

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Canada Railway and Shipping
.. Ottawa 1940/41

SESSION 1940-41

HOUSE OF COMMONS

CH 1 X 215

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STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

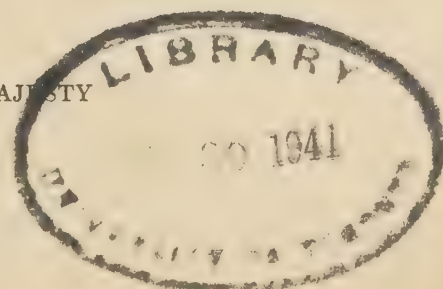
No. 3

THURSDAY, MAY 22, 1941

WITNESSES:

- Mr. S. J. Hungerford, President, Canadian National Railways.
- Mr. T. H. Cooper, Comptroller, Canadian National Railways.
- Mr. W. M. Armstrong, Assistant Chief of Research and Development,
Canadian National Railways.
- Mr. O. Matthews, representing A. Touche & Co., Auditors.

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1941



At 6 o'clock p.m., on motion of Mr. Donnelly, the Committee adjourned to meet again at 8.30 o'clock p.m., this day.

The Committee met in camera at 8.30 o'clock p.m., the Chairman, Mr. J. P. Howden, presiding.

Members present: Messrs. Donnelly, Hanson (*Skeena*), Howden, Jackman, McCulloch, Maybank, Nicholson, Pouliot, Sanderson, Sissons.

The Committee discussed the question of the Report to the House in the light of the evidence adduced in the course of the previous sittings.

On motion of Mr. Hanson (*Skeena*), it was unanimously agreed that the Chairman be empowered to appoint a subcommittee of five members including himself and that such subcommittee be charged with the work of drafting a Report to the House and submit same to the Committee for consideration and adoption.

A vote of thanks to the Chairman was proposed by Mr. Pouliot.

At 9.10 o'clock p.m., the Committee adjourned to meet again at the call of the Chair.

ANTOINE CHASSÉ,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, May 22, 1941.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met this day at 3.30 p.m., Mr. J. P. Howden, the Chairman, presiding.

Members present: Messrs. Donnelly, Emmerson, Gray, Hanson (*Skeena*), Harris (*Danforth*), Hazen, Howden, Jackman, McCulloch, Maybank, Pouliot, Ross (*Middlesex East*), Sanderson, Sissons.

In attendance: Mr. S. J. Hungerford, President and the following General Officers of the Canadian National Railways System: Mr. R. C. Vaughan, Vice-President; Mr. Allistair Fraser, Vice-President in charge of Traffic; Mr. T. H. Cooper, Comptroller; Mr. W. M. Armstrong, Assistant Chief of Research and Development; Mr. W. S. Thompson, Director of Publicity. Mr. O. A. Matthews, representing A. Touche & Co., Auditors of the Canadian National Railways System.

The Committee proceeded to the study of the Auditors' Report by George A. Touche & Co., Auditors of the accounts of the Canadian National Railways System for the year ended 31st December, 1940.

Mr. O. A. Matthews was requested by the Chairman to present the report and during the discussion which followed the witness was assisted by Mr. T. H. Cooper, the Comptroller.

(At 4.10 o'clock p.m., the sitting was suspended in order to allow the members to attend in the House for a Division. At 4.35 o'clock p.m., the proceedings were resumed.)

On motion of Mr. McCulloch, it was agreed to adopt the report of the Auditors.

The Committee afterwards took into consideration the 1941 Budget of the Canadian National Railways and Canadian National Steamships.

Mr. Hungerford requested Mr. Armstrong to read the various items of the Budget, the former replying to a number of questions relating thereto.

Concurrently, the following items of the Estimates for 1941-42 were considered by the Committee:—

Vote 403—Maritime Freight Rates Act—Canadian National Railways, Eastern Lines.. . . .	\$3,350,000 00
Vote 404—Maritime Freight Rates Act—Railways other than Canadian National Railways.. . . .	900,000 00
Vote 417—Prince Edward Island Car Ferry and Terminals	
Deficit 1941.. . . .	400,000 00

On motion of Mr. McCulloch, it was agreed to adopt the Budget and the three Items of the Estimates 1941-42.

The Chairman expressed his thanks to each and all of the officials attending before the Committee for their kind and courteous answers to the many enquiries from the members.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

May 22, 1941.

The Standing Committee on Railways and Shipping met at 3.30 p.m. The Chairman, Mr. J. P. Howden, presided.

The CHAIRMAN: Order, gentlemen, we still have to consider the auditor's report on the budget. It is thought to be a good plan to go ahead with the auditor's report now and I think we might call on Mr. Matthews to read his report.

Mr. O. A. MATTHEWS (George A. Touche & Co., Chartered Accountants).

18th March, 1941.

The Honourable The Minister of Transport,
Ottawa, Canada.

Sir,—Acting under authority of Sections 13 and 15 of The Canadian National-Canadian Pacific Act, 1936, and Chapter 4, 1940, "An Act respecting the appointment of Auditors for National Railways," we have audited the accounts of the Canadian National Railway System for the year ended the 31st December, 1940, and in accordance with the aforementioned authorities we now submit, through you, our report to Parliament.

The following financial statements of the National System are attached hereto:—

Exhibit I —Consolidated Balance Sheet at the 31st December, 1940—together with Audit Certificate.

Exhibit II —Dominion Government—Proprietor's Equity at the 31st December, 1940.

Exhibit III—Consolidated Profit and Loss Account—Year 1940.

Exhibit IV—Consolidated Income Account—Year 1940.

Exhibit V —Investments in Affiliated Companies at the 31st December, 1940.

Exhibit VI—Major Contingent Liabilities, including Pension Plans, at the 31st December, 1940.

Consolidated Balance Sheet

Investments in Properties and Equipment appearing in the books of the companies as at the 1st January, 1923, were accepted by us. As against the corporate property investments brought into the National System accounts in 1923, there have been applied the reductions as authorized by The Canadian National Railways Capital Revision Act, 1937. Since the 1st January, 1923, the property additions and betterments less retirements have been shown at cost. The property additions from that date include construction expenditures on certain Branch Lines, the completion of which has been suspended for some years.

Investments in Affiliated Companies, as set out in Exhibit V, are represented in the main, apart from the Trans-Canada Air Lines, by a 50 per cent or less capital stock ownership. The basis of the Balance Sheet figure is cost, or in certain instances special valuations approved by the Interstate Commerce Commission some years ago. There are two principal factors for consideration in this type of investment by the railroad industry generally, viz:—

- (1) The extent of traffic benefits derived by parent companies as a direct result of their investments, and
- (2) The fact that the affiliates have utilized the proceeds from the sale of their securities largely for investment in transportation properties and equipment. It is obvious therefore, that the future valuation trend affecting Investments in Affiliated Companies will be dependent, basically, upon the future economic value of the properties and equipment of the railroad industry generally.

The Self-Insurance Reserve, in respect mainly of fire risks, is invested principally in the securities of Dominion, Provincial and Municipal Governments, together with securities of companies within the National System.

The accounts of the System are stated in Canadian currency. Sterling and United States currencies have been converted at the par of exchange with the exception of the portion of the Grand Trunk Railway Company of Canada 4 per cent Perpetual Consolidated Debenture Stock which remained subject to United Kingdom Vesting Order as at the 31st December, 1940.

A summary of Dominion Government—Proprietor's Equity at the 31st December, 1940, is set forth on the Balance Sheet and the transactions during the year 1940 affecting Proprietor's Equity are detailed in Exhibit II.

Major Contingent Liabilities, including Pension Plans, are dealt with in Exhibit VI. In respect of Pension Plans, we would make reference to the fact that reserves are not set up in the Balance Sheet against pensions presently being paid or conditionally accruing under the 1935 Contractual Plan and prior Non-Contractual Plans. Actual pension payments made at the expense of the railway are charged currently to Operating Expenses. In respect of the Pension Contracts already issued and in force under the 1935 Contractual Plan the railway has made a tentative estimate, which has been accepted by us, showing a capital amount approximating \$15,450,000. This capital estimate does not cover the pensions conditionally accruing under the 1935 Contractual Plan because their future payment is contingent upon the general trend of future railroad employment.

Consolidated Profit and Loss Account

The Cash Deficit contributed by the Government for the year 1940, as shown in Exhibit III, is after making provision for the following:—

- (a) Interest on Funded Debt held by the Public;
- (b) Interest on Current Loans from the Government;
- (c) Amortization of Discount on Funded Debt;
- (d) Depreciation on Rolling Stock, and
- (e) Fixed Property Retirements apart from those charged to Proprietor's Equity.

The amounts included in the Cash Deficit in respect of Amortization, Depreciation and Fixed Property Retirements are to be applied in reduction of the Capital Expenditure cash requirements from the Government for the year 1940.

From the 1st January, 1940, Depreciation Accounting has been applied to rolling stock owned by all Lines of the System and Retirement Accounting to fixed properties. Prior to that date Depreciation Accounting was applied to rolling stock owned by United States Lines and Retirement Accounting, on the basis of original cost, to other units of property on the System.

We would again recommend the establishment at an early date of uniform accounting regulations, of a mandatory character, applicable to all Canadian railways under the statutory authority of the Dominion.

In respect of current maintenance policy we have received certificates from the President to the effect that the Properties and Equipment of the

National System have been maintained in a proper state of repair and in an efficient operating condition during the year 1940.

Capital Revision Act 1937

The accounts of the National System comply with the provisions of The Canadian National Railways Capital Revision Act, 1937.

The Canadian National Railways Securities Trust, under authority of Section 22 of the Capital Revision Act, has been treated as a constituent unit of the National System at the 31st December, 1940. There is, however, a provision in Section 23 of the Act requiring presentation to Parliament of a Trustees' Report and a separate Balance Sheet for the Securities Trust. The Trustees' Report sets forth in a summary manner the transactions of the Securities Trust during the year 1940. Our audit certificate is appended to the separate Balance Sheet.

General Scope of Audit

The general scope of the test audit which we have made of the National System for the year 1940 may be outlined briefly as follows:—

- (a) Examination of major expenditure authorities which were based mainly upon recorded Resolutions of the Directors. These major expenditure authorities in turn have been established mainly by Corporate By-laws of the Canadian National Railway Company, Statutory and Financing Acts of Parliament and Orders in Council;
- (b) Audit tests in the offices of Regions, Separately Operated Properties and System Headquarters, covering a cross section of the major expenditures so authorized;
- (c) Examination into the adequacy of the internal audit control in general by the accounting staff of the System. In this connection we work in collaboration with the executive accounting officers at Headquarters having as a common objective the securing of maximum internal protection to the System in the control of Cash Receipts and Expenditures, Securities Held, Material Stores, Accounts Receivable etc. There is the further objective of bringing about, in due course, a simpler corporate set-up within the System as one of the purposes of the Capital Revision Act, and
- (d) Audit and certification of the Consolidated Balance Sheet, Income and Profit and Loss Accounts for presentation to Parliament, which body is thus placed in possession of facts upon which conclusions can be reached as to the stewardship of the duly appointed administrators of the System.

The audit covered the various Balance Sheet accounting units with Income and Profits and Loss Accounts originating in the Revenue Offices, Regions, Separately Operated Properties and System Headquarters applicable to some 96 companies comprising the National System as an operating entity.

The principal points at which our audit work was carried out were:—

In Canada—Halifax, Moncton, Montreal, Ottawa, Toronto, Winnipeg and Vancouver.

In U.S.A.—St. Albans, Cleveland, Detroit, Chicago and Duluth.

In England—London.

In addition, audit tests were made at other points according to special conditions and requirements.

A copy of our Memorandum to the Board of Directors dealing with inactive properties and other internal matters will be despatched to the Minister of Transport in due course.

We report to Parliament that the National System accounts have been maintained, during the year 1940, in an efficient manner and in general accordance with the present rules and regulations prescribed for steam railroads in Canada and those of the Interstate Commerce Commission for lines operated in the United States.

Trans-Canada Air Lines

The Trans-Canada Air Lines have not been included as a constituent unit of the National System although 100 per cent stock ownership of the Air Lines is vested in the Canadian National Railway Company. A separate Balance Sheet and Income Account have been certified by us at the 31st. December 1940.

The surplus for the year 1940, as shown by the Income Account of the Air Lines, is after making provision for:—

- (a) Interest at 5 per cent on the capital investment in accordance with the Trans-Canada Contract, and
- (b) Depreciation on capital assets at similar rates to those used by other major air line companies in North America, in accordance with the Trans-Canada Contract.

Canadian National (West Indies) Steamships, Limited

The accounts of the Canadian National (West Indies) Steamships, Limited, and subsidiary companies are not consolidated with those of the National System, the 100 per cent stock ownership of the parent company being vested in the Dominion. A separate Consolidated Balance Sheet together with Consolidated Income and Profit and Loss Accounts have been certified by us at the 31st December, 1940.

The Self-Insurance Reserve, in respect of fire and marine risks, is invested principally in the securities of Dominion, Provincial and Municipal Governments.

The Deficit for the year 1940, as shown in the Consolidated Income Account of the Steamships, is after making provision for:—

- (a) Interest on Funded Debt held by the Public;
- (b) Interest on Loans from the Government, and
- (c) Depreciation at 3 per cent on the capital value of vessels. This rate, which has been in effect since the inception of the companies, is based upon an anticipated 25 year life and 25 per cent salvage value.

In respect of both the Trans-Canada Air Lines and the Canadian National (West Indies) Steamships, Limited, the test audit which we have made for the year 1940 is similar in scope to that of the National System and may be outlined briefly as follows:—

- (a) Examination of major expenditure authorities embracing mainly the recorded Resolutions of the Directors, Corporate By-Laws, Statutory and Financing Acts of Parliament and Orders in Council;
- (b) Audit tests covering a cross section of the major expenditures so authorized;
- (c) Examination into the adequacy of the internal audit control in general by the accounting staffs of the companies covering Cash Receipts and Expenditures, Securities Held, Material Stores, Accounts Receivable etc., and
- (d) Audit and certification of the Balance Sheets, Income and Profit and Loss Accounts for presentation to Parliament.

Yours faithfully,

GEORGE A. TOUCHE & CO.

The CHAIRMAN: Is there any discussion on the report so far? If there is no discussion we will proceed.

Mr. MATTHEWS: The statements attached are in fact confirmation of similar statements in the annual report of the Canadian National Railways. Our purpose in attaching these to our reports is mainly to confirm the figures which you have in your hand through the medium of the reports of the railway company itself.

The CHAIRMAN: In other words, we have been over all this before.

Mr. MATTHEWS: Yes, and our certificates appear on the bottom of the accounts of the railways' report.

The CHAIRMAN: Well, I think perhaps we will give the members a few moments to see if they want to discuss it.

Mr. HANSON: I see here that the auditors recommend the establishment at an early date of uniform accounting regulations, and that it be mandatory.

The CHAIRMAN: Mr. Matthews made a statement on that yesterday.

Mr. HANSON: Has that been considered by the directors? Has the recommendation of the auditors been considered by the directors?

The CHAIRMAN: Jot it down and try to get it in the report. Do you want Mr. Matthews to deal with it any further?

Mr. HUNGERFORD: Mr. Hanson, it is not a matter for us to deal with; it is a matter for the government to deal with and not the individual railways.

Mr. HANSON: I think it would be better if that were done. If that were done the members of the committee could compare the expenses and cost of the two systems much easier. I tried to get some information yesterday and could not get it because of the difference in the accounting systems of the two railways.

Mr. JACKMAN: Mr. Chairman, I wonder why there is a difference in the method of setting up the insurance on the T.C.A. as compared with the C.N.R. and the Canadian National (West Indies) Steamships Limited. In other words, in the T.C.A. there is no fund as a contra item against the liability. It is merely allowed as a general payment against the assets of the T.C.A.

Mr. MATTHEWS: It is a matter of corporate policy.

Mr. JACKMAN: If it is right in one case it is probably right in another case.

Mr. MATTHEWS: Not necessarily. It is a matter of policy. One company may choose to leave its reserves invested in current assets of free cash and materials. That is a matter of corporate policy. Some other company may choose to set it aside as a specific fund. I do not think there is any right or wrong about it, Mr. Jackman, or that the inclusion or the exclusion in one company or the other sets a proper precedent.

Mr. JACKMAN: In the case of T.C.A. there is sufficient cash, extra cash, from working capital to set up a fund probably at the present time. If you prefer to make the account uniform by adopting the T.C.A. policy then you would not invest further and you would perhaps dispose of the securities which are now in the insurance fund of the railway and in the Canadian National (West Indies) Steamships. If you did that you would save some of this 5 per cent interest you are paying on current loan to the dominion.

Mr. MATTHEWS: Mr. Jackman, the T.C.A. may be viewed perhaps just a little different from the others in that like all other enterprises in their early years they naturally will preserve their working capital as far as possible until their position is firmly established, but from our viewpoint as auditors we really have nothing to say on the matter. We present to you the facts. The facts indicate there is no fund set aside, and it then becomes a matter of corporate policy.

Mr. JACKMAN: Perhaps I should address the question to the president. Why the inconsistency of policy? What is the principle that differentiates the method of treatment of the insurance reserve in the three companies?

Mr. COOPER: I think, Mr. Jackman, in the case of the T.C.A. your assumption that there is sufficient working capital apart from the depreciation fund is not correct. If we did not utilize the depreciation fund for the purpose of extending the investment property and equipment we would have to issue additional capital stock on which the company would have to pay 5 per cent.

Mr. JACKMAN: But in the T.C.A. you have \$503,000 in cash and your total net working capital is close to \$1,000,000. It seems to me you have a little surplus there.

Mr. COOPER: Take the depreciation reserve. It is \$1,332,000. Out of that there is only \$500,000 of current cash which is just about a minimum that the company can operate on. The policy of the directors of the Trans-Canada Air Lines is to use the depreciation fund for capital purposes with the idea of reducing the amount of capital stock which it is necessary to issue, all with the object of reducing the interest charges which Trans-Canada will have to pay should additional capital stock be issued.

Mr. JACKMAN: The equipment seems in pretty good shape. Possibly you are depreciating faster here than is required. Even the necessity of using some of this cash as a draw down from depreciation reserves to replace capital asset in the future does not necessarily dictate what you should do about the insurance fund, whether you should set up as a fund on the asset side or simply as a claim against the general assets of the company. If it is sound in one case it would seem to me to be sound in the other, particularly when they are all under the same administration. However, I will not press the point further.

Mr. HARRIS: Probably Mr. Cooper will recall that some ten years ago this committee through some of the members complained that the present set-up of the Canadian National Railways lines did not set up in our opinion proper depreciation charges, but rather used the system of retiring certain equipment and writing it off, buying new equipment and writing it in at its full cost and maintaining that cost throughout. With the advent of Trans-Canada Air Lines they found themselves in the happy position of not being subsidized by the Post Office Department but receiving very substantial revenues for the carrying of mail by the Post Office Department, which helps out not only the possibility of their reducing the necessity of more capital investment but works out their working capital position from day to day and month to month as they go along, and they are able to set up very substantial depreciation charges against their equipment which I think, Mr. Chairman,—and I think Mr. Cooper will agree with me—is a departure, in my opinion, from the unsound practice of the Canadian National Railways in days gone by of not setting up depreciation charges on equipment.

In the report of the auditors I find this suggestion: From the 1st of January, 1940, depreciation accounting has been applied to rolling stock owned by all lines of the system and retirement accounting to fixed properties. Prior to that date depreciation accounting was applied to rolling stock owned by United States lines and retirement accounting, on the basis of original cost, to other units of property on the system.

We would again recommend the establishment at an early date of uniform accounting regulations, of a mandatory character, applicable to all Canadian railways under the statutory authority of the dominion.

This, Mr. Chairman, is to my mind a matter of congratulation on the part of the Canadian National Railways that they see fit now to adopt into their accounting system the idea that depreciation charges from year to year on certain parts of their equipment should be charged in conformity with what obtains under the rules of the Interstate Commerce Commission of the United States and in conformity with the idea that dominated the operations of the privately owned road in Canada, namely, the Canadian Pacific Railway.

Mr. MATTHEWS: Mr. Harris, did I hear that correctly; that you are suggesting that the Canadian Pacific Railway have had depreciation accounting on rolling stock?

Mr. HARRIS: No; they have not.

Mr. MATTHEWS: I just wanted to make sure.

Mr. HARRIS: I say I congratulate you on the idea that you have embalmed in this record, namely, that you are coming around to an idea which I, in all humility, suggested should be brought to your attention some ten years ago.

Mr. COOPER: We have been working towards this for about ten years. It was rather a big change to make; we had to take a step at a time. In 1940 the directors decided that there was sufficient—

Mr. HARRIS: I will make this observation to you: that you see to it when you do set this up that you do not come before this body here next year and ask for ten or fifteen million dollars to take care of that deficit which is in your balance sheet because you have a deficit due to the fact that you found it necessary to set up depreciation charges.

Mr. JACKMAN: Did I understand you to say that you were working toward a depreciation policy on all property?

Mr. COOPER: No; I said we had been working towards a depreciation policy with respect to rolling stock on the national system for the last ten years.

Mr. JACKMAN: Is it true that since the British railways have been taken over by the British government depreciation accounting was set up particularly in order to calculate the amount which the government shall either reimburse the British railways or allow them to earn? I understand from someone that the British railways did set up a depreciation reserve.

Mr. COOPER: They did, and so did the American railways.

Mr. MAYBANK: Is it true that the British government has taken over all the railways?

Mr. COOPER: They certainly control them, but they have not taken over the ownership. It is for the period of the war.

Mr. MAYBANK: It is just general control for the duration of the war.

Mr. COOPER: I wanted, Mr. Jackman, to disabuse your mind of what I understood you seemed to suggest, that there is a difference in the method of handling depreciation funds of the Trans-Canada as compared with those of the railway.

Mr. JACKMAN: No; the insurance fund.

Mr. COOPER: The insurance fund is a very small thing; it is only a matter of \$200,000. If it ever gets to a sizeable amount the question of separate investment of those funds will have to be considered. For a small amount we would not consider it necessary to establish a separate fund.

Mr. JACKMAN: It is not a very big company, the T.C.A. I am not pressing the point at all; it is just a difference which I noticed.

Mr. MATTHEWS: Mr. Harris, there was just one further observation I would like to make with respect to the matter of the depreciation in retirements. Have you in mind that the difference is great between the retirement charges and depreciation charges, and have you in mind that the railways have ever drawn down in cash the amounts included in the income for equipment retirement, or that they ever would draw down for depreciation?

Mr. HARRIS: Not being the witness but you being the witness, I would reply by saying no; that is not the point at all. I have this in mind: Since the inception of the set-up of this committee, Mr. Chairman, we have found that depreciation charges as presented to us each and every year are not in conformity with, first, the rules and regulations laid down by the Interstate

Commerce Commission of the United States; and, secondly, that they are not in conformity with depreciation charges as set up by the Canadian Pacific Railway. They are certainly not in conformity with usual accounting practice in ordinary business as regards depreciation and reserves which are set up against equipment. The result is that you and I, Mr. Chairman, are not able to get any sort of comparative picture in our minds as to how the railway is progressing.

If we could get a system accounting similar to that which applies to the Interstate Commerce Commission or similar to that which applies to the usual accounting practice in an ordinary business, you and I, Mr. Chairman, could sit here and probably give more intelligent thought to the statements that are presented to us. That is all that is running through my mind. This move appears in that direction, and I look forward to it being a starting point.

Mr. JACKMAN: How much were the capital retirements last year in the C. N. R.?

Mr. COOPER: About eight million dollars.

Mr. JACKMAN: \$8,000,000,000?

Mr. COOPER: Yes. There was an increase in the depreciation reserves of \$2,000,000. That means that the amount set aside exceeded the charges by that much.

Mr. JACKMAN: That is all in rolling stock?

Mr. COOPER: Yes.

Mr. JACKMAN: I mean on the whole system.

Mr. COOPER: There is no one who can answer that question.

Mr. JACKMAN: I am trying to find out, although I am not very hopeful of being able to get the answer, whether or not, in view of the fact that we do not adopt any depreciation policy in connection with railways, which on the capital account of \$1 billion \$980 million, 1 per cent depreciation alone per annum would be \$90,800,000—a very substantial item—if we had depreciation at 5 per cent it would obviously run into very considerable figures. Now, in lieu of setting up an account such as that we adopt in this company the policy of maintenance and capital retirements, writing off the capital value of any piece of equipment that passes out of service.

Mr. COOPER: No, sir—

Mr. JACKMAN: There are two methods of looking after the wastage in capital account; one is by the ordinary depreciation accounting method and the second is by capital retirement method; and the third point is that on equipment we are now adopting, shall I call it, the value depreciation policy.

Mr. COOPER: Yes.

Mr. JACKMAN: I pointed out how much the depreciation would be even at 1 per cent on the assets of the property, 1 per cent on \$1 billion \$980 million. Now, can you tell me briefly whether or not a commensurate item is being charged to the company by way of maintenance? We have two accounts for maintenance: ways and structures; and equipment expenses. On the first one \$40 million was spent last year and on the second one \$48 million odd was spent which would give us \$88 million. Then we have a few million set aside for depreciation on rolling stock.

Then I also asked the question a little while ago as to what the total of capital retirements during the year were. I am trying to find out whether the aggregate of those accounts come to anything like a comparable figure with, let us say, a 3 per cent depreciation rate or whatever rate might be adjudged proper if you did follow a depreciation policy in connection with railway accounting which policy was designed to replace the wastage of capital assets. Do I make that reasonably clear?

Mr. COOPER: Yes. I understand your question. I think the answer was given in the report of the directors itself. They make the statement that the railway and its equipment have been adequately maintained. That is the statement of the directors to the government; and in the report of the auditors which Mr. Matthews just read they make the statement that in respect of current maintenance policy "we have received certificates from the president to the effect that the properties and equipment of the national system have been maintained in a proper state of repair and is in an efficient operating condition." Now, if we are maintaining our property—that is if we are renewing it adequately—it seems to me that we are adequately taking care of any depreciation which may be presumed to have taken place.

Mr. JACKMAN: There can be no question about the relative operating efficiency of the railway.

Mr. COOPER: This is not the operating efficiency; it is the physical condition.

Mr. JACKMAN: You cannot operate efficiently until you have a fairly good physical state appertaining.

Mr. COOPER: The statement I am making here is that the physical condition of the property has been adequately maintained.

Mr. JACKMAN: Well, you see, like a human being—we maintain ourselves well up to death—the analogy is not quite perfect with an industrial company we are able to carry on our detailed duties efficiently and with no diminution in results. But the whole conception of the railroad industry, I should think, must have changed in the last thirty or forty years, perhaps the last two decades. Once upon a time, I suppose, railways were looked upon as performing a service for which there would always be a great demand. The competition of other forms of transportation was not then foreseen; it certainly was not then in existence. Now, you have alternative means of transportation. You have the airways as a new development in the last few years. So that no longer—it may be a matter of opinion, in my view anyway—can you say that if you simply maintain the physical condition of a railway you have maintained the value of those capital assets?

Mr. MATTHEWS: Mr. Jackman, you are dealing with the matter of depreciation—of two elements of depreciation—

Mr. JACKMAN: I did not deal with obsolescence.

Mr. MATTHEWS:—in regard to fixed properties. The Inter-State Commerce Commission about twelve years ago, or maybe some little time before that, established the order 15,100 that was a model of theoretical perfection along the lines you are now speaking. In fact, it was so perfect, they thought, that they made it mandatory on all the railroads of the United States—depreciation for fixed properties. But before they got to the point where it was possible of application in view of all of the practical problems involved, they entirely rescinded the order although they spent years on that study. Now, that matter of obsolescence of which you speak is one of the realities undoubtedly in the railroad industry, and anyone who does not give cognizance is closing his eyes to the realities of our time. But, on the other hand, to suggest that by some magical means of depreciation that kind of thing could be provided for is to attempt something that the Inter-State Commerce Commission studied for years and abandoned. And the position of the American railroads to-day in regard to those fixed properties is identical with that of the Canadian National Railways; and I think, as we ourselves have pointed out in report from year to year, the question of obsolescence is admitted to be something that the owners of all railroads must bear in mind as a contingency. But what appeared to be a contingency two or three years ago, that very fact to-day is a national asset, and I do not know when you are going to level that out. There is no

such thing in the railroad industry to-day as obsolescence; to-morrow with the war over that is another day.

During the period of 1920-30 there was not any obsolescence in the railroad industry, but following upon the collapse of railroad revenues in 1929 and 1930 you had this spectacle in the United States, of railroads having had depreciation accounting for long years in regard to equipment and having still in addition to all of them to write off many hundreds of millions of dollars of capital loss arising out of a straight decline in revenue from 100 cents to 50 cents; but the railroad industry simply had to take that loss. Take the United States Steel Corporation: if you make a study of their capital position in the last ten years you will find this identical situation; and it seems to me that we are living in days where we have to acknowledge that as a fact; but to suggest that for the Canadian National Railways, in the light of all the facts that are at hand, in regard to the suggestion made by the Inter-State Commerce Commission and the experience of industry generally in the ten years following 1929 is to suggest something that is not possible of accomplishment, because many industries have had a very liberal basis of depreciation but they still have had to suffer tremendous capital losses.

Mr. JACKMAN: Yes, I quite agree that depreciation and obsolescence—particularly the latter item—may be an arbitrary matter—a certain fixation of it is—but nevertheless I think you did say that we could not shut our eyes to the fact that the railroad industry was an industry which suffered rather substantially from obsolescence, and while I should not expect you to determine that actuarially, nevertheless we cannot shut our eyes to the fact that this two billion dollar assets which we have is, over the longer term, facing a considerable obsolescence which obsolescence should in the best judgment of the board of directors of the Canadian National be offset by yearly appropriation from profits, if you have them or if there were no profits, to losses, by an increase in the annual losses so that the people of Canada know that this item of two billion dollars which represents the capital cost on the books is not a true or actual item but one which is suffering from this disease of obsolescence and is being constantly reduced, perhaps not as fast as we would like to see it, but nevertheless we are making some gesture toward getting accuracy and truth in our statement.

The CHAIRMAN: Gentlemen, I do not believe that we should unduly pursue any definite point. We are not really here to debate. We have made good headway, that is true, but having followed some point as far as possible and having made ourselves clear I think we should leave it to the report of the committee to deal with it thereafter.

Mr. McCULLOCH: I move the adoption of the report.

Mr. JACKMAN: May I finish?

The CHAIRMAN: Yes.

Mr. JACKMAN: As for myself, naturally I have to accept the ruling of the chair, but I do so chiefly because I doubt very much will develop from it although I still wish to go on record with the statement that what I have claimed has not in my opinion been changed or negatived.

The CHAIRMAN: Your record is here.

Mr. COOPER: To make it quite clear, Mr. Chairman, may I have on the record that I disagree with Mr. Jackman?

The CHAIRMAN: All right, gentlemen.

Mr. ROSS: I should like to ask something in connection with the auditing company. When did this company perform its first audit, Mr. Matthews?

Mr. MATTHEWS: The year of amalgamation, 1923.

Mr. ROSS: You have not audited the books continuously since then?

Mr. MATTHEWS: Except the year 1935.

Mr. Ross: Only one year?

Mr. MATTHEWS: Yes.

Mr. Ross: Is the cost laid out in the report any place?

Mr. MATTHEWS: No. The auditors are appointed annually by parliament and the fees of the auditors are fixed by Order in Council.

Mr. Ross: In the Auditor General's report, I presume?

Mr. MATTHEWS: No, it is paid by the Canadian National Railways.

Mr. Ross: It is not in the report?

Mr. MATTHEWS: As a separate item?

Mr. Ross: Yes.

Mr. MATTHEWS: No.

Mr. Ross: Could we have the cost of your report?

Mr. MAYBANK: I thought it was paid out of the consolidated revenue fund.

Mr. MATTHEWS: No; the Canadian National-Canadian Pacific Act provided that the auditors whomever they are would be appointed by parliament annually and that the fees of the auditors would be fixed by Order in Council and paid by the Canadian National Railways.

Mr. Ross: They are fixed?

Mr. MATTHEWS: Fixed by Order in Council.

Mr. Ross: That is, from 1923 they have not changed?

Mr. MATTHEWS: In 1923 the situation was that the auditors did not report directly to parliament. The auditors did not report directly to parliament until the Canadian Pacific-Canadian National Act. Prior to that time—

Mr. Ross: The fee has changed since 1923, then?

Mr. MATTHEWS: Very little. The only change since 1923 has arisen out of the Trans-Canada Air Lines.

The CHAIRMAN: There is a motion to adopt the report.

Mr. POULIOT: Just before it is adopted may I say that yesterday I saw in *La Presse* of Wednesday, May 21, there is an air mail C.P.R. service around the world and that the C.P.R. controls eight aviation companies. It is a B.U.P. despatch. I am not going to ask any questions on it but I direct its attention to the company for their information.

The CHAIRMAN: Your statement goes on the record, Mr. Pouliot.

Mr. POULIOT: It is just to give the company notice of the situation.

The CHAIRMAN: It has been moved that the report be adopted.

Mr. JACKMAN: What was the cost of the audit in 1940? After all, it is a very big job.

Mr. MATTHEWS: It is fixed at \$51,800. I think it was \$50,000 a year.

Mr. Ross: \$51,800?

Mr. MATTHEWS: Yes.

Mr. JACKMAN: There is a private report in the auditors' report with regard to inactive properties. What is the cost value of the inactive properties, the book value now?

Mr. MATTHEWS: Uncompleted branch lines in which construction has been suspended about \$7,100,000, and other minor uncompleted projects \$675,000 and miscellaneous inactive property of \$1,400,000.

The CHAIRMAN: All in favour of the motion please indicate.

Mr. POULIOT: I have a question to ask Mr. Hungerford and then I shall be through. Mr. Hungerford, I hold in my hand a copy of the statement that you made before the Senate committee and it is entitled "Railway unification opposed by Canadian National president, 1939." You still hold the same view?

Mr. HUNGERFORD: I do.

Mr. POULIOT: Thank you.

The CHAIRMAN: Shall the motion carry?

Motion agreed to.

Mr. MAYBANK: I wish to make a motion. It is not necessary that it be done now as it deals with the report of the committee.

The CHAIRMAN: All right. The next document for us is the budget of 1941.

Mr. ARMSTRONG: This is the budget of the Canadian National Railways and the Canadian National Steamships for the year 1941.

CANADIAN NATIONAL RAILWAYS

CANADIAN NATIONAL RAILWAYS AND CANADIAN NATIONAL STEAMSHIPS BUDGET FOR YEAR 1941
SUMMARY

	Reference page	Amount	Total
<i>Canadian National Railways—All-Inclusive System—</i>			
Net Income Deficit			
Canadian National Railways.....	2	Nil	Nil
Capital Expenditures.....	3	\$19,692,206	
Acquisition of Securities.....	4	344,000	
Retirement of Maturing Capital Obligations			
Including Sinking Fund and Equipment Principal			
Payments.....	5	9,378,000	\$29,414,206
Total Budget.....			\$29,414,206

NOTE.—In event of Equipment Trust being issued for the purchase of new equipment for the Grand Trunk Western Railroad, the total Budget Requirement of \$29,414,206 will be reduced by approximately \$4,500,000.

	Reference page	Total
<i>Canadian National Steamships—</i>		
Canadian National (West Indies) Steamships, Limited		
Net Income available towards payment of Interest on Advances by		
Government of Canada.....	6	\$ 500,000
Capital Expenditures		
Additions and Betterments.....	6	20,000

MONTREAL, May 1, 1941.

CANADIAN NATIONAL RAILWAYS

(All-inclusive system)

BUDGET FOR YEAR 1941

	Amount	Total Requirements
Net income deficit—		
Operating Revenues, excluding 20% Contribution, M.F.R. Act.	\$ 286,250,000	
Contribution from Government under Maritime Freight Rates		
Act (20%)	3,350,000	
Government Share of Operating Account, P.E.I. Car Ferry and		
Terminals	400,000	
Total Operating Revenues.....	290,000,000	
Operating Expenses	227,000,000	
Net Revenue from Railway Operation.....	63,000,000	
Taxes	6,810,000	
Other Income Debits or Credits—Net Debit.....	2,551,000	
Net Income Before Fixed Charges.....	53,639,000	
Fixed Charges:		
Interest Due Public on Long Term Debt.....	44,847,000	
Interest on Dominion Government Loans for Capital and		
Refunding	6,038,000	
Other Fixed Charges.....	2,754,000	
Total Fixed Charges.....	53,639,000	
Estimated Net Cash Requirement on Deficit Account...	\$ NIL	NIL

Mr. JACKMAN: You must have worked backwards on this one, didn't you?

Mr. ARMSTRONG: To some extent.

The CHAIRMAN: Page 3.

Mr. ARMSTRONG: Page 3 deals with the estimated capital expenditures for the year 1941.

The CHAIRMAN: If these items were read you could make a notation oposite any one that you want to discuss later on and if you do not want to discuss any of them we will be through with them and they will be in the record.

CANADIAN NATIONAL RAILWAYS

BUDGET FOR YEAR 1941—ESTIMATED CAPITAL EXPENDITURES

General Additions and Betterments, less Retirements:

	Amount	Total
Atlantic Region	\$ 3,341,533	
Central Region	3,215,306	
Western Region	2,770,223	
Grand Trunk Western Railroad Company.....	708,609	
Central Vermont Railway, Inc.....	169,221	
Hotels	121,500	
Montreal Terminals Development.....	4,100,000	
Prince Edward Island Car Ferry and Terminals.....	27,650	
Subsidiary Companies.....	444,030	
General, including additions and betterments to equipment.....	793,185	<u>\$15,691,257</u>

NEW EQUIPMENT PURCHASES:

Canadian National Railways

Freight Cars

- 125 ore cars
- 100 overhead refrigerator cars
- 250 70-ton triple hopper cars
- 200 52' flat cars
- 150 Hart cars

Passenger cars

- 25 air conditioned first-class coaches
- 7 steel mail and baggage cars
- 28 second-hand coaches

Grand Trunk Western Railroad Company

Locomotives

- 25 locomotives

Freight cars

- 200 50' auto cars
- 100 50' box cars
- 100 flat cars
- 200 gondola cars

Total Estimated Cost, including Sales Tax and Inspection Charges.....	\$13,270,206
Equipment Retirements	2,069,257
Available from Depreciation Reserve.....	<u>7,200,000</u>

Total Requirement for Capital Expenditures.....	<u>\$19,692,206</u>
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Mr. HAZEN: How do the expenditures in the Atlantic region and the central region for 1940 compare with the estimated expenditures for 1941?

Mr. ARMSTRONG: The actual expenditures in 1940 as compared with the estimated expenditures for 1941? The Atlantic region in 1940, \$1,675,467. The budget for 1941, \$3,341,533.

For the central region the actual in 1940 was \$765,442; and the budget for 1941, \$3,215,306.

Mr. HAZEN: What is a hart car.

Mr. ARMSTRONG: That is a ballast car.

Mr. HAZEN: For dumping?

Mr. ARMSTRONG: Yes.

Mr. HAZEN: From whom do you buy your locomotives?

Mr. ARMSTRONG: The locomotives in Canada are from Montreal Locomotive Company or the Canadian Locomotive Company.

Mr. HAZEN: Were all these locomotives bought in Canada?

Mr. ARMSTRONG: For 1941?

Mr. HAZEN: Yes. I am speaking of the new equipment of 25 locomotives.

Mr. ARMSTRONG: Those are to be bought in the United States.

Mr. HAZEN: In the United States?

Mr. ARMSTRONG: In the United States. That is equipment for our American lines.

Mr. JACKMAN: Where are you getting the second-hand coaches?

Mr. ARMSTRONG: They were purchased in the United States.

Mr. HUNGERFORD: I might explain that while we are purchasing new locomotives for the Grand Trunk Western of a certain type to suit the requirements, we are going to transfer at least an equal number of engines that now belong to the Grand Trunk Western to the Canadian National. All these engines will be of a type suitable to meet our requirements on the Canadian lines; so, in effect, the buying of these 25 engines for the Grand Trunk Western is to provide additional power in Canada.

Mr. JACKMAN: What percentage of your rolling stock would have this new type of airbrake equipment.

Mr. HUNGERFORD: It is practically all equipped.

Mr. JACKMAN: But there is a new type that the I.C.C. make.

Mr. HUNGERFORD: You are referring to what is known as the A.B. brake. It is being applied to all new equipment, but it is being applied progressively; rather slowly to the older equipment.

Mr. JACKMAN: Of the total rolling stock approximately what percentage would have the new A.B. equipment?

Mr. HUNGERFORD: We will have to get that for you.

Mr. JACKMAN: I only want a round figure. 10 per cent or 20 per cent?

Mr. HUNGERFORD: I could not say.

Mr. JACKMAN: You are making pretty slow progress in putting it on the new equipment?

Mr. ARMSTRONG: I would not say that; no.

Mr. HUNGERFORD: We can easily get that for you but we have not got it here.

Mr. HAZEN: Do you have to pay duty on second-hand equipment which you bring in from the United States?

Mr. HUNGERFORD: There will be Canadian duty on a depreciated value.

The CHAIRMAN: I think we would make better time if we ran through these items and you made notations concerning items which you wished to discuss afterwards. However, we shall do as you prefer.

Mr. ARMSTRONG:

CANADIAN NATIONAL RAILWAYS
BUDGET FOR YEAR 1941—ACQUISITION OF SECURITIES

Toronto Terminals Railway Company—

Joint with the Canadian Pacific Railway Company
Provision for Canadian National Railways' Proportion of Capital
Expenditures of the Toronto Terminals Railway Company,
which may be required in 1941..... \$ 100,000

Northern Alberta Railways Company—

Joint with the Canadian Pacific Railway Company
Provision for Canadian National Railways' Proportion of Capital
Expenditures of the Northern Alberta Railways Company,
which may be required in 1941..... 100,000

Chicago and Western Indiana Railroad Company—

Advance to be made to the Chicago and Western Indiana Railroad
Company, under terms of Fourth Supplemental Indenture dated
as of March 1, 1936, between that Company and the Bankers'
Trust Company—\$131,800 (say)..... 132,000

Atlantic and St. Lawrence Railroad Company—

Provision for approximate amount required to purchase 155
currency shares of the Atlantic and St. Lawrence Railroad
Company, which are outstanding in the hands of the Public..... 12,000

Grand Total..... \$ 344,000

CANADIAN NATIONAL RAILWAYS

BUDGET FOR YEAR 1941

RETIREMENT OF MATURING CAPITAL OBLIGATIONS, SINKING FUND
AND EQUIPMENT PRINCIPAL PAYMENTS

Due Date 1941	Issue	Amount
April 16th	Payment under Hire-Purchase Agreement.....	\$ 517,173
April 18th	Payment under Hire-Purchase Agreement.....	991,968
May 1st	Canadian National Railway Company 4½% Equipment Trust Series "J" Certificates.....	1,000,000
May 1st	Canadian National Railway Company 5% Equipment Trust Series "K" Certificates.....	1,200,000
June 1st	Canadian National Railway Company 4½% Equipment Trust Series "L" Certificates.....	1,050,000
July 1st	Canadian National Railway Company 2% 1927 Guaranteed Debenture Stock	988,441
July 1st	Canadian National Railway Company 2½% Equipment Trust Series "Q" Certificates.....	650,000
July 1st	Wellington, Grey and Bruce Railway Company 7% Bonds....	5,840
July 1st	New England Elevator Company 3¾% Bonds.....	10,000
August 1st	Canadian National Railway Company 2½% Equipment Trust Series "O" Certificates.....	1,430,000
September 1st	Province of New Brunswick Debentures, account of St. John and Quebec Railway Company.....	166,000
September 15th	Canadian National Railway Company 2¾% Equipment Trust Series "P" 1938.....	500,000
October 1st	St. John and Quebec Railway Company 4% Stock.....	27,280
December 14th	Grand Trunk Western Railroad Equipment Trust, 1929.....	283,000
December 14th	Central Vermont Railway, Inc., Equipment Trust, 1929.....	124,000
December 31st	Indebtedness to State of Michigan <i>re</i> Woodward Avenue...	428,537
1942		
January 1st	Wellington, Grey and Bruce Railway Company 7% Bonds...	5,840
Grand Total		9,378,079
		(say) <u>9,378,000</u>

NOTE.—There has not been included in the above statement the semi-annual Sinking Fund Payments of \$250,000 each, due July 1, 1941, and January 1, 1942, for Canadian Northern Railway Company 6½% Sinking Fund Bonds, as these amounts, in the judgment of the Management, will not be required owing to the improbability of our being able to use same in accordance with the terms of the Trust Agreement.

Mr. SANDERSON: What is meant by "hire-purchase agreements"?

Mr. ARMSTRONG: That is an arrangement that was made with the government in connection with the purchase of equipment. The government in the first instance paid for the equipment and the Canadian National pays the cost back in equal annual instalments.

Mr. MAYBANK: The government has a lien note on it and can take it away from you if it likes?

Mr. ARMSTRONG: Yes.

Mr. HUNGERFORD: They continue to own the equipment until it is paid for.

Mr. ARMSTRONG:

CANADIAN NATIONAL STEAMSHIPS

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED—BUDGET FOR YEAR 1941

	1941 Estimate
<i>Estimated Net Income from Operation—</i>	
Operating Revenues.....	\$4,629,000
Subsidies to be received from the West Indies Colonies, in conformity with Trade Agreement entered into with the Government of the Dominion of Canada.....	183,000
Total Revenues.....	4,812,000
Operating Expenses.....	3,790,000
Net Operating Income.....	1,022,000
Interest Requirements on 5 per cent 25-Year Bonds issued in 1930, Principal Amount \$9,400,000.....	470,000
Exchange Premium on Bond Interest.....	52,000
Net Income Available towards Payment of Interest on Advances by Government of Canada.....	500,000
<i>Capital Expenditures—</i>	
Additions and Betterments.....	\$ 20,000

The CHAIRMAN: Before we pass the budget, gentlemen, I have some items I should like you to consider for a moment. The first is item No. 403 on page 47 of the current estimates, departmental administration, \$335,070. Shall the item carry?

Carried.

Item 404 on the same page?

Carried.

Vote No. 417, on page 52?

Carried.

Shall we pass this budget?

Mr. JACKMAN: You mean the budget report which we have in front of us?

The CHAIRMAN: Yes.

Mr. JACKMAN: That is an important thing: I had better give some consideration to it.

The CHAIRMAN: We are through with the consideration of this portion of the business.

Mr. EMMERSON: There might be a few questions we would like to ask on the budget.

The CHAIRMAN: All right.

Mr. EMMERSON: I wanted to ask just one question in connection with the Prince Edward Island Car and Ferry Terminals. There is an amount of \$27,650. Is that for the construction of the radio beacon, or is it for the maintenance of the car ferry or repairs, or what is it?

Mr. ARMSTRONG: That includes an amount for the erection of beacons at Cape Tormentine and the installation of direction finding equipment on the S.S. Charlottetown.

The CHAIRMAN: Are there any other questions?

Mr. MAYBANK: What is this item of \$121,000 for, under "Hotels." Can you give us a little detail on that?

Mr. ARMSTRONG: It is made up of a large number of small items, Mr. Maybank.

Mr. MAYBANK: As far as I can see, at any rate, in our budget of the former year I do not see anything comparable. The only hotel expenditure I notice is the one for the Vancouver Hotel.

Mr. ARMSTRONG: There are altogether 28 items in that.

Mr. MAYBANK: There are a large number of expenditures in all the different hotels?

Mr. ARMSTRONG: Yes; there are eleven hotels and twenty-eight items.

Mr. HUNGERFORD: Generally speaking, they represent some improvements at the different places.

Mr. MAYBANK: You have been making quite a few of the old type refrigerator cars into the new overhead type; have you mostly all overhead refrigerator cars now?

Mr. HUNGERFORD: I think we only have 100 and we are proposing to get another 100.

Mr. MAYBANK: But these are new?

Mr. HUNGERFORD: Yes.

Mr. MAYBANK: The other 100 are converted, are they not?

Mr. HUNGERFORD: No; they were built new.

Mr. MAYBANK: You also converted some, did you not?

Mr. HUNGERFORD: No.

Mr. MAYBANK: The new scheme, referring to the overhead type, is where you lay the ice all across the ceiling?

Mr. HUNGERFORD: Yes.

Mr. MAYBANK: That is the meaning of it?

Mr. HUNGERFORD: Yes.

Mr. MAYBANK: The heating arrangement is different too, is it not?

Mr. HUNGERFORD: Yes.

Mr. MAYBANK: The manner in which you distribute it in the car is different, is it not?

Mr. HUNGERFORD: The improved heating arrangement has been applied to a large number of the old cars, and it is also applied to these new cars.

Mr. MAYBANK: Then there would be that much conversion to a number of old cars?

Mr. HUNGERFORD: Yes.

Mr. MAYBANK: But you did not convert the old cars into the overhead freezer type?

Mr. HUNGERFORD: Quite right.

The CHAIRMAN: Gentlemen, we really do not need to detain the officials of the railway.

Mr. JACKMAN: Mr. Chairman, there are one or two questions on the budget which I should like to ask. This is a very important part of our duties.

The CHAIRMAN: All right.

Mr. JACKMAN: As I understand it, the system should break even on operating charges in the coming year and also pay interest on its debt to the public and on its funded and current debt to the government?

Mr. ARMSTRONG: That is right.

Mr. HUNGERFORD: That is what we predict.

Mr. JACKMAN: That is what the budget calls for. In addition to that you want \$29,441,000.

Mr. HUNGERFORD: Yes.

Mr. JACKMAN: \$19,000,000 is for capital expenditures which are set forth on page three. I just want to understand these book-keeping items thoroughly. There is thirteen million and nineteen million to go for new equipment?

Mr. ARMSTRONG: That is correct.

Mr. JACKMAN: On page 3 we have two items in red: Equipment Retirements, \$2,069,257, and available from Depreciation Reserve, \$7,200,000. Could you throw some light on those two red items?

Mr. COOPER: They represent the amounts which will be available from the retirement of equipment and the amount available in the depreciation reserve. In other words, we are going to use the funds available in the depreciation reserve as far as they will go towards meeting our capital expenditures.

Mr. JACKMAN: Those funds having been set up out of charges to pass operating accounts?

Mr. COOPER: Yes.

Mr. JACKMAN: In addition to the \$19 million we have a cost, the first item being \$344,000, for acquisition of securities; that cost is entailed by purchasing certain securities?

Mr. COOPER: Yes.

Mr. JACKMAN: It does not represent the actual securities; it represents the cost of acquiring them, funds or exchange.

Mr. COOPER: Let us take one, for example, the Toronto Terminal Railway. It is expected to require \$200,000 for capital expenditure and of that the Canadian National Railway as part owner would be required to provide \$100,000.

Mr. JACKMAN: That is acquiring new securities, not old ones.

Mr. COOPER: The Toronto Terminal Railway will issue its bonds. From the point of view of the Canadian National Railways we are purchasing the bonds of the Toronto Terminal Railway and they are making a capital expenditure.

Mr. JACKMAN: With regard to those amounts concerning the Toronto Terminal Railway they will use those amounts to purchase new equipment or something new; it is not to cover a deficit on their part?

Mr. COOPER: No, for improvements to the Terminal at Toronto. The operating costs of the Terminal are borne by the two railways on the basis of use.

Mr. JACKMAN: The \$34,000 all goes to other companies for the acquisition of new assets of the other companies.

Mr. COOPER: As far as the Toronto Terminal is concerned, yes; as far as the Northern Alberta Railway is concerned, yes; but the item for the Chicago and Western Indiana is not quite in that character. I do not know whether you want me to explain it.

Mr. JACKMAN: No, it is not large. You want \$9,378,000 for retiring maturing securities, and they are set out on the schedule on page 5, all being rolling stock certificates.

Mr. COOPER: Not all, but most of them.

Mr. JACKMAN: Perhaps you had better explain.

Mr. COOPER: Well, in the funded debt of the railway which appears in the balance sheet as \$1 billion \$199 million and of which details appear on pages 19 and 20 you see all the different securities of the national system which are outstanding in the hands of the public at the end of 1940. Now, some of those fall due for retirement during 1941.

Mr. JACKMAN: These are securities already in existence in regard to which you are the debtor?

Mr. COOPER: Yes.

Mr. JACKMAN: And you have not been able to set up funds to take care of them. In other words, they have not been charged to operations during the life of the equipment which would accumulate so you could meet these maturities which fall due in 1941.

Why do you have to call upon the government to give you funds to pay off a debt which you owe on rolling stock if you have charged the wear and tear on the rolling stock during the years in which it has been in use?

Mr. COOPER: To the extent that money has been provided by charges to operations for the retirement of rolling stock, it has been our practice to use those moneys for general additions and betterments rather than for the retirement of capital obligations. You cannot use the money twice. If we use the sums which are provided by charges to operations for improvement of the property, then they are not available for the retirement of capital debts.

Mr. JACKMAN: You do not think it should have been earmarked as you met the charges to operations for the specific purpose of retiring these equipment trusts certificates?

Mr. COOPER: No, definitely not.

Mr. JACKMAN: We discussed that the other day. This amount of money \$9,000,000 has really been charged to current operations, but the money was used currently rather than accumulated to meet the maturities.

Mr. COOPER: No, I would not quite agree with that. We purchase equipment by the issue of equipment trust certificates which mature serially over a period of fifteen years. I do not know whether you are suggesting in some way that we should take up in our operations in that fifteen-year period a sufficient amount to retire the certificates, because if that is your suggestion then I do not think we could accept it because obviously equipment lasts more than fifteen years. As a matter of fact, the discharge of capital obligations in point of time has no relation to the life of the property itself; we might issue perpetual securities, but we would not suggest that the property acquired by the issue of such securities is perpetual.

Mr. JACKMAN: The point that still sticks in my mind is that you have a certain amount of rolling stock against which you issue these equipment trust certificates, and now you come to the maturity date when you want \$9,000,000 to retire them, in part at least. I think you said that amounts had been charged to operations to offset that.

Mr. COOPER: Yes, but the amounts which have been charged to operation have been used for general betterment and addition; they are not earmarked and they are not available for the discharge of these equipment trust obligations. You may think that the funds should be earmarked, that we should take the sum available in the depreciation reserve and use it as far as it will go for the discharge of capital debt. We prefer to apply it against general additions and betterments.

Mr. ARMSTRONG: You realize that this equipment is still in service.

Mr. JACKMAN: Yes, it makes my point all the stronger.

Mr. ARMSTRONG: It has not been retired.

Mr. JACKMAN: I realize it is a financial operation.

Mr. COOPER: I do not think there is any direct connection between the redemption or discharge of the capital debt and the operating account itself. The only effect it has may be to change the interest rate. If we change our capital debts from one character such as equipment trust obligations and substitute a 20-year bond; that is purely a financial transaction and has no relation to operations, and it is not conditioned in any sense upon the life of the equipment.

Mr. JACKMAN: But as I understand equipment trust certificates, they are based on the useful life.

Mr. COOPER: No, I do not think so; not at all.

Mr. GRAY: I suppose Mr. Jackman and Mr. Cooper might get together and thresh this out in Mr. Jackman's room and let us get on.

Mr. COOPER: Our practice with respect to accounting in this kind of thing follows the accounting regulations of the Interstate Commerce Commission precisely. You will find every other railroad doing what we are doing. You will find the Canadian Pacific Railway which is often held up to us as an example doing what we are. There is nothing wrong with it.

The CHAIRMAN: Gentlemen, I do not believe that the Canadian National Railway system will alter its accounting unless we get at them through the reports. I do not think that any amount of debate will make any change. It is well to have these matters explained, no doubt, but we have had quite a lengthy explanation and I think probably we might defer.

Mr. MAYBANK: Mr. Chairman, I indicated yesterday that I wanted to move a resolution relative to the amount of government work the Canadian National Railways does. I have drafted a few paragraphs of what I would like to see put into the report, and I would like to do that now while the representatives of the railway are here, because should there be anything factually wrong they would be able to correct it. I would like to move, seconded by Mr. Hanson, that in the report of this committee to the house the following words should be included—or as Mr. Harris says “embalmed”, but I will say embodied, because I believe he was indulging in a witticism when he used that word:—

Your committee has inquired carefully into the position of the Canadian National Railway with reference to the amount of government or government-controlled business which it receives in comparison with the Canadian Pacific Railway, and more particularly such business of that kind which may be said to be a result of the war, e.g., the movement of the armed forces, the shipment of commodities for them and the movement of munitions of war, etc.

It would appear to your committee that the railroad which is the property of the people of Canada obtains about 50 per cent of the total business of this kind; possibly a little less or a shade more.

Your committee feels strongly that a considerably larger share of all such railway business should go to the National system.

Your committee is influenced towards such a conclusion, in part by the fact that the Canadian mileage of the two systems is approximately 21,790 for the C.N.R. and 16,829 for the C.P.R., and this great difference in miles of track would tend to show the justice of the larger share of government and government-controlled business going to the C.N.R.

Again, the number of employees on the two railways would tend to point to the same conclusion. Canadian National Railway employees are about 75,000 whereas Canadian Pacific employees are about 53,000: the ratio of about 3 to 2.

Moreover, considering the fixed charges of the two roads, it is seen that the C.N.R. has to find a much larger sum of money for interest each year than does the privately owned road and if the C.N.R. should fail

to earn enough to pay its fixed charges, the people of Canada, the owners of the road, have to tax themselves to make up the deficit. The ratio of fixed charges of the C.N.R. to the C.P.R. is as 53 to 26. This is another and further indication that the government should make sure that the national road gets the major share of all government railway business and government-controlled business.

As a result of the foregoing as well as other considerations, your committee strongly recommends to parliament that effective steps be taken by the government to make certain that from this time forward the Canadian National Railway will obtain not less than 65 per cent of all railway business which is in the control of the government of Canada.

I just wish to add to that that I do not want to be understood as making any attack whatsoever upon the Canadian Pacific Railway. Personally I appreciate the service that it is rendering to this country and has rendered in the past. I have every respect for it. I think that Canada has been very well served by it; but it seems to me that considering all of the facts that from time to time we discover in relation to the railway business in Canada and with relation to the manner in which the C.N.R. is carrying on, I think they lead us inescapably to the conclusion that the people's road—for I might call it that—should get the major share of the sort of business that is mentioned in these clauses that I desire to get into the report.

The CHAIRMAN: May I point out, gentlemen, that this is very unusual if it is in order. I question whether it is in order, but any motion I suppose is in order. It is very unusual; it makes it impossible for the officials here to comment on a report that is not yet submitted because I do not see how we can put it in the minutes of this committee. The usual practice in the past has been for the committee to meet in camera and discuss these things and draft a report.

Mr. MAYBANK: Mr. Chairman, I believe I can restore order or a condition of order if we are for the moment a little out of order. As I said when I introduced this I want to do it at this time so that should there be any factual mis-statements the officers present could correct them. May I put it this way: I am giving notice that I shall move that this go into the report.

The CHAIRMAN: That makes it all right.

Mr. MAYBANK: Then I would like to ask whether there is anything factually wrong. I am not asking these officers to talk about the policy in regard to this. That is not their sphere. But I should like to ask the officers if there is anything factually wrong with that statement.

Mr. JACKMAN: And does it include the whole truth.

Mr. MAYBANK: My proposed proposition is to find out if there is anything wrong with it other than my figures. They can go as far as they like in a further examination of it.

The CHAIRMAN: We can accept this as a notice of motion and have the officials here correct you if you have been in error.

Mr. MAYBANK: For your convenience then I will give you what I have read from.

The CHAIRMAN: Would it be in order for a copy of this to be left with the officials until we draft our report to-morrow?

Mr. MAYBANK: I submit what has been said by me here now.

Hon. Mr. CARDIN: Can not that be considered as a suggestion made instead of a recommendation?

Mr. MAYBANK: It may be, Mr. Cardin, when we are actually drafting the report that some variation in words may be made. I am not stuck on the precise phraseology or anything like that. My sole purpose in doing it at this moment was, as I have said, to get any incorrect facts corrected.

Mr. HAZEN: May I ask what the motion is?

Mr. GRAY: There is no motion.

Mr. HAZEN: Yes, I understand there is.

The CHAIRMAN: As the matter stands Mr. Maybank contemplates moving that this clause be embodied in the report. But he is asking, in order to avoid his making any misstatement, that the officials of the road who are here correct any statement that he has made that is incorrect. He is not asking them to comment on the motion at all, and it is up to them entirely to say anything or nothing if they wish.

Mr. MAYBANK: The question I put to Mr. Hungerford and his associates is: Are there any misstatements of fact there?

Mr. HUNGERFORD: May I ask this, Mr. Maybank, that so far as your statement in respect to numbers of employees and the mileage is concerned we believe the figures to be correct.

Mr. MAYBANK: I noted that from Mr. Armstrong.

Mr. ARMSTRONG: May I add these figures are as reported to the Dominion Bureau of Statistics.

Mr. MAYBANK: There may have been a few taken on since.

Mr. ARMSTRONG: No; what I meant is this: The difference in methods of reporting may result in some variation. I do not think it would be great.

Mr. MAYBANK: That is sufficient for the purpose.

Hon. Mr. CARDIN: From a practical point of view do you really think it would be possible to take the traffic that way, taking into consideration the situation of the plants along different lines?

Mr. ARMSTRONG: It would not be impossible.

Hon. Mr. CARDIN: Would not that entail much policing on the part of the government if we undertook to do that?

Mr. HUNGERFORD: It would be quite possible for the government to determine how the business was being divided by the amount of money paid by the government to the two roads.

Mr. ARMSTRONG: It has already been done in the case of the Department of National Defence in connection with the movement of troops.

Mr. DONNELLY: Are the employees to which you referred a moment ago full time employees or is part time taken into consideration?

Mr. ARMSTRONG: The employees are counted once a month; that is, the average.

Mr. DONNELLY: The average?

Mr. ARMSTRONG: Yes.

The CHAIRMAN: I think a motion to adjourn this meeting would be in order, but before you do that I should like to suggest that we meet to-night and consider the drafting of a report. Whether we all get into the drafting of the report or not, or whether we should appoint a sub-committee, it is up to you. Before the committee does adjourn or when it does adjourn I should like to thank all and singly the gentlemen who have so kindly and courteously answered all the inquiries of this committee.

Mr. JACKMAN: Before we do rise may I say that Mr. Maybank has elicited an amazing array of facts. It might be well to make sure that we have all the facts with regard to these two systems and the amount of traffic they haul and their relation with the government. For instance, does the C.N.R. pay as much in taxes as the C.P.R. to the government?

The CHAIRMAN: Gentlemen, we are all out of order. I think the whole business is out of order. We have finished with the consideration of this report.

I think Mr. Maybank's statement is out of order, but it is only a notice of motion. We are gathered together to prepare the report. If the majority of the members of the committee feel there is something in this situation that should not be considered it will be struck out entirely.

Mr. JACKMAN: There are some important things in regard to it, Mr. Chairman, leaving aside the question of taxation. I was rather surprised—not while I was sitting here yesterday but when I had time to think things over—that someone from the Canadian National Railways, Mr. Fraser, I think, should suggest that traffic was directed not necessarily by the ministers in charge of various departments but by those junior to him, the deputies and those under the deputies; and coupled with that suggestion was one from Mr. Maybank that one of your C.N.R. officials did not have as much of an expense account as perhaps certain other people who solicit the traffic. There was no charge made but the inferences and innuendos are obvious. I think that if there are any charges against any people who have the direction of government business they should be most definite and most explicit and they should come before this committee for further investigation.

Mr. MAYBANK: I think Mr. Jackman will permit me to interrupt him to this extent to say that I intended no imputation, no bad imputation upon anybody whatsoever, either the officers of the C.P.R. or civil servants. When I said what I did it was half jocular, I only had in mind that very often moneys are supplied to persons soliciting business for the purpose of making proper social contacts and that sort of thing. It is done every day in every business. There is nothing wrong with it. It does not come in the class of bribery or anything like that. I certainly intended no imputation.

The CHAIRMAN: A motion to adjourn would be in order.

Mr. DONNELLY: I move we adjourn.

Mr. JACKMAN: Certain facts have been brought out by officials who are here, but there are a number of questions which implement those asked by Mr. Maybank which might throw some light on the subject. If the chair does not wish to entertain it that is satisfactory.

Mr. DONNELLY: I move we adjourn to meet at the call of the chair.

The CHAIRMAN: Eight-thirty to-night?

Mr. HAZEN: Mr. Jackman evidently has something in his mind about this matter that he would like to ask some of the directors who are here to-day. It seems to me that before we should embody any clause like this suggestion to-day in our report we should have the opportunity to go into the matter much more fully. Mr. Maybank's suggestion, I noticed, said, "We have inquired carefully into the amount." Personally I do not think we have inquired carefully at all. The inquiry has been a most casual one. If this matter is to be gone into I think we should go into it more fully.

The CHAIRMAN: Mr. Hazen, you had your opportunity to inquire into it carefully. I did not shut anybody off. I allowed them very very free and full discussion.

Mr. HAZEN: You did. But this is something new and has just come up.

Mr. GRAY: We went fully into it yesterday.

The CHAIRMAN: We have finished with all the reports.

Mr. JACKMAN: As a matter of fact some of these matters have nothing to do with the reports. I know nothing about the comparison of the two lines. That matter came up and I think it is extraneous to the report. The number of man miles carried by the C.P.R. as against the C.N.R. was mentioned in connection with soldiers.

Mr. GRAY: We can decide whether we are going to incorporate Mr. Maybank's suggestion into the report or not when we meet in camera.

The CHAIRMAN: I will make this ruling, gentlemen: if you want to ask questions of the gentlemen assembled here before this meeting adjourns we will hear the questions, but as far as going into a general debate on the topics is concerned I will rule against it.

Mr. JACKMAN: My first question is: Does the C.P.R. pay taxes to the dominion government and to what amount other than the taxes which are paid by the Canadian National Railways?

Mr. ARMSTRONG: We do not know in detail what the taxes of the Canadian Pacific Railway are. The total taxes paid by the Canadian Pacific both direct and indirect are substantially less than those of the Canadian National Railways. We pay in direct taxation something like \$11,000,000.

Mr. JACKMAN: Including sales tax?

Mr. ARMSTRONG: Municipal and provincial taxes over \$7,000,000. Excluding sales tax and all other taxes, those are readily discernible. In direct taxes we pay probably \$11,000,000 or a little over. Of course, on everything we buy there is an indirect tax. Taxes are included on all materials we buy. Taking the whole thing together we pay in taxes more than the Canadian Pacific Railway.

Mr. JACKMAN: Do you pay corporation tax now of 40 per cent on your earnings? Are you subject to the corporation tax which is now 40 per cent on any earnings?

Mr. ARMSTRONG: We do not happen to have any net earnings at present.

Mr. JACKMAN: The C.P.R. will pay 40 per cent on any earnings which it may have.

Mr. ARMSTRONG: Naturally they must abide by the laws of the country.

Mr. JACKMAN: How much non-productive mileage would you say was contained in the C.N.R. system?

Mr. ARMSTRONG: Just what do you mean by that? I do not understand your definition.

Mr. JACKMAN: I understand that is the term apparently used and means the taking of all mileage which does not gather up traffic on the way, that is, it is just merely between two points.

Mr. ARMSTRONG: Every mile of line is productive to some degree or other. Just what do you mean by "productive"? I do not quite get your definition. It is a matter of relativity.

Mr. JACKMAN: Yes but there are long distances between points, such as in Northern Ontario, where you do not pick up traffic. You might pick up traffic at a few way stations, perhaps, but it is hauled between one point and another where there is no tributary traffic, if you like, for long stretches.

Mr. ARMSTRONG: That is not quite correct. There are few stretches where there is not some local traffic. The question is how much traffic do you call productive; that is, when does the line become productive? If you could define that, I might be able to give you an answer.

Mr. JACKMAN: It is a relative term, perhaps, but there must be some stretches on both lines where the amount of traffic picked up is of such a small percentage as compared with the amount of through traffic that it is infinitesimal.

Mr. ARMSTRONG: That is true. The through traffic on the main line, for instance, between Ottawa and Winnipeg is much more important and much greater in volume than the local traffic. But would you call that an unproductive line?

Mr. JACKMAN: It certainly is not producing anything.

Mr. ARMSTRONG: It is producing transportation between eastern and western Canada.

Mr. JACKMAN: Yes, but I am trying to find out whether your lines are located so that you are in a position to acquire as much traffic as does the C.P.R.

Mr. ARMSTRONG: I would say we are in a much better position.

Mr. JACKMAN: As a whole?

Mr. ARMSTRONG: Oh, yes, much because of our much greater mileage in the industrial areas. Furthermore, as far as potential traffic is concerned, I would say we are in a much more favourable position, because we serve territories which have not even been tapped yet, as far as natural resources are concerned. When I say "not even tapped," I mean not to anywhere near their full extent. I particularly mention the line in the vicinity of Noranda. That line was built for one purpose as a Transcontinental line, but has developed into a very good branch line.

Mr. JACKMAN: I suppose that some people might have a different opinion as to the amount of unproductive lines held by the two systems?

Mr. ARMSTRONG: Definitely. It is a question, as I pointed out yesterday, of what you are going to credit to the line for revenues, and what are you going to debit to the line for expenses. In other words: when does a line become productive or unproductive?

Mr. JACKMAN: Passenger man miles is a railroad term?

Mr. ARMSTRONG: Passenger miles, not passenger man miles; the ladies are counted too.

Mr. JACKMAN: How many passenger miles for the carrying of troops or of government people—

Mr. ARMSTRONG: We have not any such figures.

Mr. JACKMAN: —did you receive as against the C. P. R.?

Mr. ARMSTRONG: We have not any such figures; we do not know.

Mr. JACKMAN: In other words, a great deal of the comparison between the movement of government business carried by the two systems must be a matter of conjecture?

Mr. ARMSTRONG: We know the money fairly definitely, as you saw by the return made in the house. The money is really what we want; it is not so much the matter of carrying passengers; it is a question of getting revenues.

Mr. JACKMAN: When you speak of money, take the amount of money which is paid to the respective railways or the amount of money which they retain; obviously if a ticket is purchased at a C.N.R. station and part of the route lies over a C.P.R. line, you have to pay them, and vice versa?

Mr. ARMSTRONG: Quite.

Mr. JACKMAN: And the answer to that is—

Mr. ARMSTRONG: I explained that, I think, yesterday, in giving an answer to Mr. Maybank; that the return in the house showed the money paid to each railway. In each case that would be the railroad which originated the movement. After an adjustment was made for inter-line settlements the figures showed there was a slight balance, as far as we could figure it, in favour of the Canadian National.

Mr. POULIOT: What is the total mileage of the lines of the C.N.R. as compared with the total mileage of the lines of the C.P.R.?

Mr. ARMSTRONG: 23,000 for the C.N.R. and 17,000 for the C.P.R.

Mr. POULIOT: Therefore the mileage of the C.N.R. is considerably more than the mileage of the C.P.R.?

Mr. ARMSTRONG: Considering the total mileage of the Canadian National and C.P.R., it is about 58 per cent for the C.N.R.

Mr. POULIOT: To be fair, it should be divided on that basis. There is a big railway and a small one, and it is divided fifty-fifty.

Mr. MAYBANK: Mr. Chairman, while Mr. Pouliot is substantially in agreement with me I nevertheless mention a point of order.

The CHAIRMAN: Yes, gentlemen; there is a motion before the committee.

Mr. MAYBANK: You opened this up.

Mr. POULIOT: I did not open up this question.

The CHAIRMAN: I was permitting Mr. Jackman to ask a few questions. For the last twenty minutes there has been a motion before this committee to adjourn. Is the motion carried?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: The committee stands adjourned.

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Committee on Railways and Shipping, 1940-41

SESSION 1940-41

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HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

MONDAY, MAY 26, 1941

INCLUDING
SECOND AND THIRD REPORTS TO HOUSE

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1941



MINUTES OF PROCEEDINGS

Room 277

MONDAY, May 26, 1941.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met in camera this day at 11.30 o'clock, p.m. The Chairman, Mr. J. P. Howden, presided.

Members present: Messrs. Bercovitch, Donnelly, Emmerson, Howden, Jackman, McCulloch, Maybank, Pouliot, Sanderson, Shaw, Sissons.

The Committee took into consideration the draft of a Report submitted by the Chairman on behalf of the subcommittee.

On motion of Mr. Maybank, the first paragraph of the draft-Report was adopted unanimously.

On motion of Mr. Maybank, the second paragraph of the draft-Report was adopted unanimously.

Mr. Bercovitch moved that the draft-Report as read be adopted in its entirety and that the Chairman be instructed to make the Report as adopted to the House.

The question being put on the motion it was agreed to in the affirmative as follows: Yeas, 7; Nays, 2.

Mr. P. T. Coolican, Assistant Deputy Postmaster General filed with the Committee certain statistics and estimates for the Trans-Canada air mail service. (See appendix "A" appearing in to-day's minutes of proceedings and evidence.)

At 12.30 o'clock p.m., the Committee adjourned *sine die*.

ANTOINE CHASSÉ,

Clerk of the Committee.

REPORTS TO THE HOUSE

FRIDAY, May 23, 1941.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as a

SECOND REPORT

Your Committee has considered the following Items of the Estimates referred to the Committee on May 6, 1941, and approves of same, viz:—

Vote No. 403—Maritime Freight Rates Act—Canadian National Railways Eastern Lines.....	\$3,350,000 00
Vote No. 404—Maritime Freight Rates Act—Railways other than Canadian National Railways.....	900,000 00
Vote No. 416—Canadian National (West Indies) Steamships, Ltd., Capital—Advances.....	20,000 00
Vote No. 417—Prince Edward Island Car Ferry and Terminals Deficit 1941.....	400,000 00

All of which is respectfully submitted.

J. P. HOWDEN,
Chairman.

MONDAY, May 26, 1941.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as a

THIRD REPORT

Your Committee views with satisfaction the purchase of a block of 4 per cent perpetual consolidated debenture stock of the former Grand Trunk Railway Company of Canada by the Canadian National Railways Co. through the Canadian National Railway's Financing and Guarantee Act, 1940, and would respectfully suggest the acquirement of the balance of this outstanding perpetual issue. The Committee holds the same view with regard to purchase or refunding of the 6½ per cent Sinking Fund Debenture Bonds of the former Canadian Northern Railway.

In accordance with the recommendation of the duly appointed auditors, the Committee recommends the establishment at an early date of uniform accounting regulations of a mandatory character applicable to all Canadian railways under the Statutory authority of the Dominion.

Your Committee has enquired into the position of the Canadian National Railway with regard to the amount of Government or Government-controlled business it receives in comparison with its chief competitor, the Canadian Pacific Railway. It would appear that in relative strength the respective systems are as follows:—

Mileage.	C.N.R. 21,790 miles of road
	C.P.R. 16,829 miles of road
Number of employees.	C.N.R. 75,000
	C.P.R. 53,000
Ratio of fixed charges.	C.N.R. 53
	C.P.R. 26

The major differences in miles of track, number of employees and ratio of fixed charges would indicate the desirability for a rational division of Government-controlled business.

Your Committee, therefore, recommends that steps be taken to assure a division of Government-controlled business more in accord with the relative responsibility of the two roads.

A copy of the printed evidence taken is tabled herewith.

All of which is respectfully submitted.

J. P. HOWDEN,
Chairman.

APPENDIX "A"

OTTAWA, May 26, 1941.

A. CHASSÉ, Esq.,
Clerk, Committee on Railways and Shipping,
Room 431, House of Commons,
Ottawa, Ontario.

Dear SIR,—Enclosed herewith please find statistics and estimates for the Trans-Canada air mail service.

The statements are self-explanatory and, I believe, will supply you with the required information.

Yours truly,

COOLICAN,
Assistant Deputy Postmaster General.

AIR AND LAND MAIL SERVICES,

OTTAWA, May 23rd, 1941.

SYNOPSIS OF THE DEVELOPMENT OF TRANS-CANADA AIR MAIL
SERVICE

September 1, 1937—Trans-Canada Air Lines commenced Air Mail operations on September 1, 1937, when the Vancouver-Seattle route was taken over upon the request of Canadian Airways Ltd., who had operated the service until that date. The service was performed at the existing contract rate of 50 cents per mile. Mail prepaid at air mail rates only was carried.

March 1, 1938—On March 1, 1938, experimental air mail flights were commenced between Vancouver and Winnipeg, ordinary first class mail being carried at the rate of 50 cents per mile. The rate was increased to 60 cents per mile on July 1, 1938.

October 1, 1938—Carriage of ordinary mail discontinued over the Vancouver-Winnipeg route. Only mail prepaid at air mail rates carried. Lethbridge-Edmonton service commenced.

December 1, 1938—Service extended experimentally east to Montreal.

March 1, 1939—Service between Montreal, Toronto and Vancouver inaugurated on night schedules.

July 18, 1939—Service between Montreal and Toronto increased by one round trip daily.

November 1, 1939—Daylight familiarization flights commenced between Montreal and Moncton, ordinary mail being carried. Regular schedules were inaugurated on January 1, 1940, and carriage of ordinary mail discontinued.

April 1, 1940—Extra daily flights commenced between Montreal and Vancouver and a third daily trip placed on the Vancouver-Seattle route starting April 14, 1940.

July 15, 1940—Toronto-Windsor service commenced on a daily frequency, which was increased to semi-daily on July 25, 1940.

August 1, 1940—One extra round trip between Montreal and Toronto.

September 29, 1940—Vancouver-Seattle service reduced from three to two round trips per day.

April 1, 1941—Rates reduced from 60 cents to 45 cents per mile.

April 15, 1941—Service extended from Moncton to Halifax, and the frequency east of Montreal increased to two round trips per day. Service between Montreal and Toronto increased by one round trip daily. The Moncton-Charlottetown A.S.S. was also taken over temporarily from the Canadian Airways Ltd. at the request of the Post Office Department.

April 30, 1941—Toronto-New York service inaugurated on a frequency of two round trips per day.

May 12, 1941—Vancouver-Seattle service discontinued.

STATISTICS REGARDING AIR MAIL SERVICE PERFORMED BY TRANS-CANADA AIR LINES

PREPARED BY AIR AND LAND MAIL SERVICES DIVISION

	Mail Miles Flown	Gross Weight of Mail Carried (pounds)		Average Gross Daily Poundage (Air Mail only)	Cost	Average Daily Cost	Estimated Revenue Attributable to Air Service		Difference between Cost and Estimated Revenue Surplus-Blk. Deficit-Ital.	Difference between Cost and Revenue in terms of Poundage Surplus—Black Deficit—Italic	
		At Ordinary Rate	At Air Mail Rate				(Approximate)	Daily Average		Per Month	Per Day
1937	6,344		4,724	157	\$ 3,172 00	\$ 106 00	\$ 4,742 00	158 00	\$ 1,570 00	785	26
	6,344		3,778	122	3,172 00	102 00	4,408 00	142 00	1,236 00	618	20
	6,344		3,307	110	3,172 00	106 00	4,106 00	137 00	844 00	422	14
	6,344		2,697	87	3,172 00	102 00	3,586 00	116 00	414 00	207	7
	TOTAL (1937).....	25,376		14,506	119	12,688 00	104 00	16,752 00	137 00	4,064 00	508	17
1938	5,978		2,533	82	2,989 00	96 00	3,034 00	98 00	45 00	23	1
	6,344		2,692	96	3,172 00	113 00	3,710 00	133 00	538 00	269	10
	46,048		3,875	125	23,024 00	743 00	7,750 00	250 00	15,274 00	7,637	246
	89,252		4,438	148	44,626 00	1,488 00	8,876 00	296 00	35,750 00	17,875	596
	96,159		5,165	167	48,079 50	1,551 00	10,330 00	334 00	37,749 50	18,875	609
	99,452		5,980	199	49,604 00	1,653 00	11,960 00	398 00	37,664 00	18,832	628
	160,968		7,460	241	52,094 40	1,680 00	14,920 00	482 00	37,174 40	18,587	600
	120,814		7,416	239	52,387 20	1,690 00	14,832 00	478 00	37,555 20	18,778	606
	84,464		6,975	233	50,092 80	1,670 00	13,950 00	466 00	36,142 80	18,071	602
	104,234		16,173	522	61,881 60	1,996 00	32,346 00	1,044 00	29,535 60	14,768	476
	96,541		14,042	468	57,339 00	1,911 00	28,084 00	936 00	29,255 00	14,628	488
	188,056		27,493	887	110,903 60	3,578 00	54,986 00	1,774 00	55,917 60	27,959	902
	TOTAL (1938).....	1,098,310	267,168	104,242	286	556,193 10	1,524 00	204,778 00	564 00	351,435 10	14,643	481
1939	194,130		21,382	690	115,599 60	3,729 00	42,764 00	1,380 00	72,835 60	36,418	1,175
	176,114		24,221	865	105,009 60	3,750 00	48,442 00	1,730 00	56,567 60	28,284	1,010
	216,805		42,245	1,363	129,497 40	4,177 00	81,490 00	2,726 00	45,007 40	22,504	726
	218,488		41,879	1,396	128,442 00	4,281 00	83,758 00	2,792 00	44,684 00	22,342	745
	223,510		48,844	1,576	133,227 60	4,298 00	97,688 00	3,152 00	35,539 60	17,770	573

June.....	215,830	46,955	1,565	129,058 80	4,302 00	93,910 00	3,130 00	35,148 80	17,574	586
July.....	234,318	49,580	1,599	139,712 40	4,507 00	99,160 00	3,198 00	40,552 40	20,276	654
August.....	247,320	53,648	1,731	147,806 40	4,763 00	107,296 00	3,462 00	40,510 40	20,255	653
September.....	238,313	52,388	1,746	142,015 20	4,734 00	104,776 00	3,492 00	37,239 20	18,620	621
October.....	244,382	48,411	1,562	143,746 20	4,637 00	96,822 00	3,124 00	46,924 20	23,462	757
November.....	275,506	62,205	2,073	162,367 20	5,412 00	124,410 00	4,146 00	37,957 20	18,979	633
December.....	269,640	74,575	2,406	156,390 60	5,045 00	149,150 00	4,812 00	7,240 60	3,620	117
Total (1939).....	2,754,356	566,333	1,552	1,632,873 00	4,474 00	1,132,666 00	3,104 00	500,207 00	20,842	685
1940										
January.....	274,684	64,880	2,093	159,978 80	5,161 00	129,760 00	4,186 00	30,218 80	15,109	487
February.....	259,015	63,701	2,197	152,653 20	5,264 00	127,402 00	4,394 00	25,251 20	12,626	451
March.....	269,977	64,685	2,087	159,056 40	5,131 00	129,370 00	4,174 00	29,686 40	14,843	479
April.....	381,253	57,235	1,908	227,591 40	7,586 00	114,470 00	3,816 00	113,121 40	56,561	1,752
May.....	431,471	76,536	2,469	258,360 00	8,334 00	153,072 00	4,938 00	105,288 00	52,644	1,698
June.....	403,856	68,270	2,276	241,946 40	8,065 00	136,540 00	4,552 00	105,406 40	52,703	1,423
July.....	443,859	78,765	2,544	265,165 80	8,546 00	157,530 00	5,088 00	107,635 80	53,818	1,736
August.....	485,076	86,664	2,796	290,058 00	9,357 00	173,328 00	5,592 00	116,730 00	58,365	1,883
September.....	465,718	86,078	2,869	278,949 60	9,298 00	172,156 00	5,738 00	106,793 60	53,397	1,780
October.....	475,626	94,164	3,038	284,746 80	9,185 00	188,328 00	6,076 00	96,418 80	48,209	1,555
November.....	437,425	89,829	2,994	258,894 60	8,630 00	179,658 00	5,988 00	79,236 60	39,618	1,321
December.....	425,968	96,230	3,104	254,962 20	8,225 00	192,460 00	6,208 00	62,502 20	31,251	1,008
Total (1940).....	4,753,928	927,037	2,533	2,832,363 20	7,739 00	1,854,074 00	5,066 00	978,289 20	40,762	1,336

ESTIMATED REVENUE ATTRIBUTABLE TO AIR MAIL SERVICE is approximate and gives only a very general idea of the situation. Its use lies principally in observing the trends in air mail development and should not be considered as an accurate profit and loss statement. Several factors prevent its computation with any degree of accuracy.

1. The poundage figures listed show gross weights, containing a certain amount of duplication due to the same mails being carried over more than one link of the service. Any attempt at obtaining net figures for strictly new air mail would involve a costly system of recording with a probable slowing up of transmission.
2. Mail prepaid at air rates, but given surface routing, does not appear in the poundage figures; nevertheless, the extra revenue derived therefrom is directly attributable to the existence of the air mail service.
3. The various Branches of the Post Office Department are auxiliary to and dependent upon each other, thus preventing an exact segregation of revenues and costs to one Branch. Nor can any practical means be devised for determining accurately the revenue per pound of air mail. The following system has been employed which, it is believed, gives a fairly close estimate:
Sampling has shown an average of fifty letters to the pound, prepaid at 6c. per letter; of this, 3c. is the air surcharge. To this surcharge is added 1c. as the saving to surface transport caused by air transmission. The revenue attributable to air mail service, is therefore, estimated at 4c. per letter.

CHART SHOWING PROBABLE COSTS AND REVENUES FOR THE TRANS-CANADA AIR MAIL SERVICE DURING YEAR 1941 AND FISCAL YEAR 1941-1942

Prepared by the Air and Land Mail Services Division

The statistics for the month of January 1941 show the actual experience, and, using this month as a basis, an estimate was made of the poundage for the balance of the calendar and fiscal years in the following manner:

(1) POUNDAGE—An analysis of the Daily Average Poundage, shown on Page I, discloses the fact that since March 1939: i.e., since the inauguration of overnight schedules and a regular transcontinental air mail service, the Daily Average Air Mail Poundage carried has increased by an average rate of 4% per month approximately. Assuming therefore that this rate of progressive growth will continue during the next year, the poundage for the months February–December 1941 was estimated by increasing the January 1941 Daily Average Poundage by 4% per month. The poundage for January 1942 was estimated by pro rating the estimated daily average poundage for December 1941 according to the ratio of January 1941 to December 1940 poundage. This was done in line with the observation that the month of January also shows a marked decline in air mail poundage in relation to the preceding month. The figures for February and March 1942 were computed by increasing the average daily poundage for January 1942 by 4% per month.

(2) MILEAGE AND COST—Figures for January 1941 show the actual experience, the others being estimated as follows:
(a) February and March, 1941: 95% performance of schedules (15,144 miles daily) at 60c. per mile.
(b) April, 1941–March, 1942 inclusive: 97% performance of schedules at 45c. per mile. It has been assumed that the current schedules will remain unchanged for the balance of the fiscal year.

Percentage performance according to Trans-Canada Air Lines Tentative Operating Budget for 1941.

(3) ESTIMATED REVENUE ATTRIBUTABLE TO AIR MAIL SERVICE—See footnote to Page I.

1941	Mail Miles Flown	Gross Weight of Mail Carried (pounds)		Average Gross Daily Poundage (Air Mail only)	Cost \$ cts.	Average Daily Cost \$ cts.	Estimated Revenue Attributable to Air Mail Service		Difference between Cost and Estimated Revenue Surplus-Blk. Deficit-Ital.	Difference between Cost and Revenue in terms of Poundage Surplus—Black Deficit—Italic			
		At Ordinary Rate	At Air Mail Rate				(Approximate)	Daily Average		\$	cts.	\$	cts.
January	442,670	82,900	2,677	265,602 00	8,568 00	\$	cts.	165,840 00	5,354 00	99,762 00	49,881	1,609
February	402,830	.....	77,952	2,784	241,698 00	8,632 00	155,904 00	5,568 00	85,794 00	42,897	1,532	
March	445,991	.....	89,745	2,895	267,595 00	8,632 00	179,490 00	5,790 00	88,105 00	44,053	1,421	
April	472,032	.....	90,330	3,011	212,414 00	7,080 00	180,660 00	6,022 00	31,754 00	15,877	529	
May	551,400	.....	97,061	3,131	248,130 00	8,004 00	194,122 00	6,262 00	54,008 00	27,004	871	
June	528,689	.....	97,680	3,256	237,910 00	7,930 00	195,360 00	6,512 00	42,631 00	21,315	710	
July	546,312	.....	104,966	3,386	245,840 00	7,930 00	209,932 00	6,772 00	35,908 00	17,954	579	
August	546,312	.....	109,151	3,521	245,840 00	7,930 00	218,302 00	7,042 00	27,538 00	13,769	444	
September	528,689	.....	109,860	3,662	237,910 00	7,930 00	219,720 00	7,324 00	18,271 00	9,135	305	
October	546,312	.....	118,045	3,808	245,840 00	7,930 00	236,096 00	7,616 00	9,744 00	4,872	157	
November	528,689	.....	118,800	3,960	237,910 00	7,930 00	237,600 00	7,900 00	391 00	195	7	
December	546,312	.....	127,658	4,118	245,840 00	7,930 00	255,316 00	8,236 00	9,476 00	4,738	153	
TOTAL—CALENDAR YEAR 1941	6,086,238	1,224,171	3,354	2,932,529 00	8,034 00	2,448,342 00	6,708 00	484,430 00	20,185	664		

ESTIMATED

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Canada - Railways and Shipping,
Standing Committee, 1942

SESSION 1942

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HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

THURSDAY, APRIL 30, 1942

WITNESSES:

- Mr. H. J. Symington, K.C., Director and President, Trans-Canada Air Lines.
- Mr. O. T. Larson, Vice-President, Trans-Canada Air Lines.
- Mr. W. F. English, Assistant Vice-President, Trans-Canada Air Lines.
- Mr. R. C. Vaughan, President, Canadian National Railway System.
- Mr. N. B. Walton, Vice-President, Operation, Canadian National Railway System.
- Mr. T. H. Cooper, Comptroller, Canadian National Railway System.
- Mr. W. M. Armstrong, Assistant Chief of Research and Development, Canadian National Railway System.
- Mr. W. S. Thompson, Director of Public Relations, Canadian National Railway System.

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1942



ORDERS OF REFERENCE

HOUSE OF COMMONS,

THURSDAY, 19th February, 1942.

Ordered. That the Standing Committees of this House shall severally be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to send for persons, papers and records.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

HOUSE OF COMMONS,

TUESDAY, 24th March, 1942.

Ordered. That Standing Order No. 63 of the House of Commons, relating to the appointment of Standing Committees of the House, be amended by adding to the Standing Committees of the House for the present session a Standing Committee on Railways and Shipping owned, operated and controlled by the Government, to which will be referred accounts and estimates and bills relating thereto of the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines for the present session, for consideration and report to the House; provided however that nothing in the resolution shall be construed to curtail in any way the full right of discussion in Committee of Supply; and that the said Committee consist of Messrs. Bercovitch, Jackman, Bradette, Hazen, Donnelly, Dubuc, Emmerson, Ferland, Gray, Shaw, Hanson (*Skeena*), Harris (*Danforth*), Howden, Howe, Lockhart, Nicholson, McCulloch, Maybank, Parent, Pouliot, Ross (*Middlesex East*), Sanderson, Sissons.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

HOUSE OF COMMONS,

WEDNESDAY, 29th April, 1942.

Ordered. That the Annual Budget of the Canadian National Railways and Canadian National (West Indies) Steamships Limited, tabled to-day, and the Annual Reports for the year 1941, laid on the Table of the House on March 19, 1942, viz: Canadian National Railways; Canadian National (West Indies) Steamships Limited; Canadian National Railways Securities Trust; George A. Touche and Company, Auditors of the Accounts of the Canadian National Railways System; and the Annual Report of Trans-Canada Air Lines

for 1941, tabled on March 23, 1942, be referred to the Standing Committee on Railways and Shipping, together with the following Items of the Estimates for 1942-43:—

400 Maritime Freight Rates Act, Canadian National Railways Eastern Lines.....	\$3,350,000 00
401 Maritime Freight Rates Act—Railways other than Canadian National Railways.....	900,000 00
410 Canadian National (West Indies) Steamships Limited—Capital—Advances	20,000 00
411 Prince Edward Island Car Ferry and Terminals Deficit 1942	400,000 00

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

HOUSE OF COMMONS,

THURSDAY, 30th April, 1942.

Ordered. That the said Committee be empowered to print, from day to day, 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

Ordered. That the said Committee be empowered to sit while the House is sitting.

Ordered. That the quorum of the said Committee be reduced from 12 members to 8 members.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORTS TO THE HOUSE

THURSDAY, April 30, 1942.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as a

FIRST REPORT

Your Committee recommends:—

1. That it be empowered to print, from day to day, 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto;

2. That it be empowered to sit while the House is sitting;

3. That the quorum of the Committee be reduced from 12 members to 8 members.

All of which is respectfully submitted.

J. P. HOWDEN,
Chairman.

(This report was adopted by the House on 30th April, 1942.)

MINUTES OF PROCEEDINGS

ROOM 277, THURSDAY, 30th April, 1942.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met this day at 11 o'clock a.m.

Members present: Messrs. Bercovitch, Donnelly, Dubuc, Emmerson, Ferland, Gray, Hanson (*Skeena*), Harris (*Danforth*), Hazen, Howden, Howe, Jackman, McCulloch, Maybank, Nicholson, Pouliot, Sanderson, Shaw, Sissons.

The Orders of Reference of Thursday, 19th February; Tuesday, 24th March; and Wednesday, 29th April, 1942, were read and the Clerk forthwith invited nominations for Chairman.

Mr. Hanson (*Skeena*) moved, seconded by Mr. McCulloch, that Mr. J. P. Howden be elected Chairman.

And the question being put on the said motion, it was agreed to unanimously.

And the Clerk of the Committee having declared Mr. J. P. Howden duly elected, he took the Chair. Mr. Howden expressed his thanks to the members for the honour conferred again upon him and the Committee proceeded forthwith with its deliberations.

On motion of Mr. Harris (*Danforth*), it was

Resolved,—That the Committee ask leave to print, from day to day, 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

On motion of Mr. McCulloch, it was

Resolved,—That the Committee ask leave to reduce its quorum from 12 members to 8 members.

On motion of Mr. Hanson (*Skeena*), it was

Resolved,—That the Committee ask leave to sit while the House is sitting.

The following officials of the Department of Transport were in attendance:

Mr. C. P. Edwards, Deputy Minister;

Mr. G. W. Yates, Assistant Deputy Minister;

Mr. F. M. MacLennan, Chief Treasury Officer;

Mr. J. A. Wilson, Director of Air Services.

The Chairman of the Board of Directors, the President and general officers of the Canadian National Railway System, the Trans-Canada Air Lines and the Canadian National (West Indies) Steamships, Limited, were also in attendance, viz:—

Mr. S. J. Hungerford, Chairman of the Board of Directors, Canadian National Railway System;

Mr. R. C. Vaughan, President, Canadian National Railway System;

Mr. N. B. Walton, Vice-President, Operations, Canadian National Railway System;

Mr. H. J. Symington, K.C., President and Director, Trans-Canada Air Lines;
Mr. O. T. Larson, Vice-President, Trans-Canada Air Lines;
Mr. W. F. English, Assistant Vice-President, Trans-Canada Air Lines;
Mr. T. H. Cooper, Comptroller, Canadian National Railway System;
Mr. W. S. Thompson, Director of Public Relations, Canadian National Railway System, and Trans-Canada Air Lines;
Mr. W. M. Armstrong, Assistant Chief of Research and Development, Canadian National Railway System;
Mr. O. A. Matthews, representing George A. Touche & Co. auditors.

The Committee proceeded with the study of the Annual Report of the Trans-Canada Air Lines, for the year ended 31st December, 1941.

The Report was read by Mr. Symington, K.C. and the witness was questioned at length thereon. He was assisted by Messrs. Larson, English and Cooper.

The witness filed, at the request of the Committee, a statement showing the break-down of operating expenses, etc., of the T.C.A. This document appears as Appendix "A" following the report of evidence heard this day.

At 1.00 o'clock p.m., on motion of Mr. McCulloch, the Committee adjourned to meet again at 4.00 o'clock p.m. this day, provided leave had then been obtained by the Committee to sit while the House is sitting.

AFTERNOON SITTING

The Committee, having obtained leave to sit while the House is sitting, met again at 4.00 o'clock p.m. Mr. J. P. Howden, the Chairman, presided.

Members present: Messrs. Donnelly, Dubuc, Emmerson, Ferland, Gray, Hanson (*Skeena*), Harris (*Danforth*), Hazen, Howden, Jackman, Lockhart, McCulloch, Nicholson, Pouliot, Ross (*Middlesex East*), Sanderson, Shaw, Sissons.

In attendance: The same whose names appear for the morning sitting.

The Committee resumed consideration of the Annual Report of Trans-Canada Air Lines for the year ending December, 1941.

Mr. H. J. Symington, K.C., was recalled and after replying to a few questions by the members the witness was permitted to retire with Messrs. O. T. Larson and W. F. English. On behalf of the Committee, the Chairman thanked the officers.

On motion of Mr. McCulloch, seconded by Mr. Sanderson, the Committee adopted the Annual Report of Trans-Canada Air Lines.

The Committee then took up the study of the Annual Report of the Canadian National (West Indies) Steamships, Limited, for the year ended 31st December, 1941.

Mr. R. C. Vaughan, Director and President, was called. The witness read the report and was questioned at length thereon. Messrs. W. M. Armstrong and T. H. Cooper assisted.

After completing its study, on motion of Mr. Hanson (*Skeena*), seconded by Mr. McCulloch, the Committee adopted the Annual Report of the Canadian National (West Indies) Steamships, Limited.

The Committee then went on to the consideration of the Annual Report of the Canadian National Railway System, for the year ended 31st December, 1941.

Mr. R. C. Vaughan, President, was recalled. The witness proceeded with the reading of the Report and was questioned at length on the various headings. He was assisted by Mr. N. B. Walton, Vice-President of Operations; Mr. W. M. Armstrong, Assistant Chief of Research and Development; Mr. T. H. Cooper, Comptroller; and Mr. W. S. Thompson, Director of Public Relations.

In the course of the proceedings, while Mr. Vaughan was on the witness stand, Mr. Pouliot read to the Committee a circular letter from the Canadian Brotherhood of Railway Employees, at Montreal, under date of March 30, 1942. Questions were allowed to be put to the witness on the subject-matter of the circular letter pertaining to the System Adjustment Board but the Chairman ruled that the circular letter would not be printed in the record.

In the course of the proceedings, while Mr. Vaughan was on the witness stand, Mr. Pouliot read to the Committee a circular letter sent by the Railway Company to their employees. Questions were allowed to be put to the witness relating to the subject-matter but the Chairman ruled that the circular letter would not be printed in the record.

At a later stage of the proceedings Mr. Ross (*Middlesex East*) read an article appertaining to the magnificent work performed by the Railways in the United States in connection with the movement of troops. There again the Chairman ruled that the newspaper articles would not be printed in the record of evidence.

At the time of adjournment Mr. Vaughan was still on the stand. The reading of the report was suspended until the next sitting.

At 5.50 o'clock p.m., on motion of Mr. Donnelly, the Committee adjourned to meet again on Friday, May 1st, at 11 o'clock a.m.

ANTOINE CHASSÉ,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 268,

April 30, 1942.

The Select Standing Committee on Railways and Shipping met at 11 o'clock. The Chairman, Mr. J. P. Howden, presided.

The CHAIRMAN: Gentlemen, I wish to thank you for making me your chairman again this year, and at the outset I should like to ask the committee to take as much advantage of the time at our disposal as possible, because the war has thrown a great burden on the officials of the Canadian National Railways and I understand that they are short-handed and the departments are all very busy. While there is no desire on the part of railway officials to curtail discussion, at least we should not waste any time. The procedure usually has been for the president to read his report and to open the discussion. Now, if there is anything else before the meeting before that is done we will pause for any remarks on the part of members of the committee. If not, we will take up the report of Trans-Canada Air Lines, and I will call Mr. H. J. Symington, K.C., President of Trans-Canada Air Lines, to present the report of his department.

Mr. SYMINGTON: Mr. Chairman and gentlemen, I have the fifth annual report of Trans-Canada Air Lines for the year ended 31st December, 1941, as follows:—

To the Shareholders:

The Board of Directors submit herewith the Annual Report of Trans-Canada Air Lines for the year ended 31st December, 1941.

The year's operations were marked by continued development and growth of passenger, mail and express business, extension of services to meet the growing demand for air transport, and increased utilization of the company's skilled personnel and plant facilities to serve the war effort.

The number of passengers carried increased 60 per cent, air mail increased 50 per cent, and air express increased 64 per cent.

The transcontinental service was extended from Moncton to Halifax, and a daily trip was added to the Toronto-Montreal service; a new service was inaugurated between Toronto and New York; operation of the Vancouver-Seattle service was discontinued.

The shops and facilities at Winnipeg and Malton (Toronto) were expanded to undertake additional repair and overhaul work on military aircraft. Maintenance and overhaul of aircraft used in the Atlantic Return Ferry Service was undertaken at Montreal.

Mr. BERCOVITCH: Why was the service from Vancouver to Seattle discontinued?

Mr. SYMINGTON: In the past it was not a paying service. Secondly, negotiations took place between the Air authorities in Washington and Ottawa, because it is an international matter, and when we got the Toronto service—permission from them—there was an over-all temporary arrangement made which expires September of this year, when the whole matter is to be reviewed and a United States line took over the flying from Seattle to Vancouver.

The CHAIRMAN: I would like to suggest, Mr. Symington, that perhaps it would be wise after each individual item has been read or after each paragraph has been read to pause for a moment for interrogation before you proceed.

Mr. SYMINGTON: Just as you like, sir. I had really thought that someone else would read this report and afterwards I would point out some of the essential phases which I thought perhaps might be of interest; but any procedure you like will be quite satisfactory to me.

Mr. JACKMAN: What is the basis of the contract between the T.C.A. and the R.C.A.F. and Atlantic Ferry; is it cost plus?

Mr. SYMINGTON: Cost plus.

Mr. JACKMAN: Cost plus, how much?

Mr. SYMINGTON: Well, that is somewhat involved, but it roughly amounts I would say to a service at cost—a certain percentage on a certain class of work. Perhaps Mr. Larson could give you the details. It is the usual thing that the B.O.A.C. asks us to do, and I would say that it is a war service which is being done practically at cost.

Mr. DONNELLY: Is this all the extension in paragraph 4 to the service?

Mr. SYMINGTON: At the end of the year.

Mr. DONNELLY: During the last year?

Mr. SYMINGTON: Yes, there have been extensions since the end of the year, but last year the extension was Moncton to Halifax, and Toronto to New York.

Mr. JACKMAN: Have these two extensions paid for themselves pretty well from the start?

Mr. SYMINGTON: Yes, I would say so. If you analyse the figures, I would think they paid for themselves. When you come to the percentage of earnings in the various categories I think it is quite apparent that they paid for themselves.

The CHAIRMAN: We might have those figures now.

Mr. SYMINGTON: Result of Operations:—

	1941	1940	Increase or Decrease
Operating Revenues.....	\$5,807,794 03	\$4,592,383 39	\$1,215,410 64
Operating Expenses.....	5,306,136 00	3,855,934 04	1,450,201 96
	<hr/>	<hr/>	<hr/>
Income Charges and Interest.....	\$ 501,658 03 199,221 24	\$ 736,449 35 197,186 20	\$ 234,791 32 2,035 04
	<hr/>	<hr/>	<hr/>
Surplus.....	\$ 302,436 79	\$ 539,263 15	\$ 236,826 36

Operating revenues totalled \$5,807,794, an increase of \$1,215,411 or 26 per cent over the preceding year, which indicates a substantial growth in the earning power of the company. Passenger revenues increased \$774,211 or 50 per cent; mail revenues increased \$225,758; express and miscellaneous revenues increased \$215,442. Effective April 1st the rate for the carriage of air mail was reduced from 60 cents to 45 cents a mile. Partly as a result of this reduction in rate, and partly due to the increase in passenger business, mail revenue contributed 53 per cent of the total revenue as compared with 62 per cent in 1940 and 70 per cent in 1939.

Operating expenses totalled \$5,306,136, an increase of \$1,450,202 or 38 per cent over the preceding year. Approximately one-half of the increase is accounted for by expansion of services; the remainder represents increased labour and material costs due to war conditions. Payrolls increased \$597,398; gasoline and oil \$285,883; materials and supplies \$359,403; rentals, office expenses, advertising and miscellaneous expenses \$138,903; depreciation and insurance \$68,615.

Mr. HARRIS: Have you a break-down of the operating expenses?

Mr. SYMINGTON: Yes.

Mr. HARRIS: Would that be available, Mr. Chairman?

Mr. SYMINGTON: Yes.

Mr. HARRIS: Is it available now, Mr. Chairman?

Mr. SYMINGTON: I do not know whether it is available to be filed, but I have the figures here and I intended to point out some of the high lights.

Mr. HARRIS: I was not interested in the high lights; I am interested in the figures—the entire break-down of the operating expenses should be filed.

Mr. SYMINGTON: Yes, all right.

Mr. DONNELLY: How do you account for the great increase in the operating expense?

Mr. SYMINGTON: It is accounted for first by the increased mileage flown; secondly, by the increased cost of materials, gas, etc., and third by the cost of living bonus.

Hon. Mr. HOWE: The reduction in operating revenues is due to the fact that the mail rate was cut down by the 1st of April last year from 60 cents a mile to 45 cents a mile.

Mr. HARRIS: Partially cut; perhaps the minister will agree with that?

Hon. Mr. HOWE: Partially? They were all cut.

Mr. HARRIS: They were cut from 60 to 45?.

Hon. Mr. HOWE: That is right.

Mr. HARRIS: As a matter of fact, progress in the inverse ratio; I imagine the rates will go down.

The CHAIRMAN: That is quite clear.

Mr. HARRIS: Yes, I think we all appreciate what the minister was able to do in that regard.

Mr. MAYBANK: Was it cut over all?

Hon. Mr. HOWE: Yes, it was cut on the 1st of April.

Mr. MAYBANK: It was not all taken away—

Mr. HARRIS: The fact is, Mr. Chairman, that 53 per cent of the revenues of the T.C.A. is coming under that sacred depository known as the post office. The observation I made, Mr. Chairman, was this: we are still in the happy position of finding it necessary to carry mail by air, and in carrying mail by air we are able to provide the cost of operating the T.C.A. to the extent of 53 per cent by a contract negotiated between the Post Office Department and the T.C.A. which permits of \$53 out of every \$100 of revenue emanating from post office sources. I have no complaint in regard to that. I make that observation. That rate is high compared to rates which obtain in other parts of North America and certainly in Europe previous to war time. None the less, that is the fact. This committee, in my opinion, is appreciative of the fact that it is gradually coming down to a more reasonable basis, but two years ago it provided something in the nature of 70 per cent of our revenue; 1940, it was 62 per cent of all revenue, and in the year gone by it has provided 53 per cent, due to the fact that the rate was reduced; and I think, Mr. Chairman, that the minister will agree that rates, for the density of mail carried, in the United States find themselves in many places half of the rate which presently obtains. The only point I have in mind in making these observations is that the public should know that we have this service. I have enjoyed it for the last two or three weeks to a considerable extent and we must keep it up to a high level. At the same time, the source from which the money comes to operate that service should be known also to the Canadian people,

namely, that it is coming to a large degree out of post office services—the postal department; and the postal department, as I have said before, is always considered by the British Empire and the Canadian and Anglo Saxon people as a kind of sacred depository, and the people should know there is a contract in existence between the Post Office Department and the T.C.A. which gives them the opportunity of receiving this revenue. There is no complaint in regard to that. At the same time, each and every year we ought to review that particular contract to know where the money is coming from.

I have one further observation to make. I would like to ask this question. I find that on April 1st the rate of carriage of air mail was reduced; is that April 1st of this year?

Hon. Mr. HOWE: April 1, 1941. It is fair to say following your remarks that the Post Office is now making a profit out of the air mail portion of the stamps, and also that there are many rates in the United States which on the longer routes are considerably lower but on the shorter routes are higher. This is an over-all rate for long and short services, and you are getting down very much on a comparable basis with the States.

Mr. HARRIS: The majority of rates are lower.

Hon. Mr. HOWE: Yes, that is right.

Mr. SYMINGTON: May I put some figures on the record now relative to the discussion which might be of interest with respect to the Post Office?

"According to data prepared by the Post Office Department, there are on the average fifty letters to a pound of air mail, and the revenue to the Post Office is \$3 per pound. Of this \$3 the cost of ground service (sorting, delivery, etc.,) is \$1, leaving \$2 available as revenue to apply against payment to the air carrier." That is, out of a 6-cent letter rate 2 cents goes to the credit of the post office for over-all expenses without the T.C.A. getting any credit for it and 4 cents is credited to the carriage of air mail.

"The table which follows indicates revenue received by the Post Office for the fiscal years noted (April 1st to March 31st) from airmail carried by Trans-Canada Air Lines and the corresponding payments to the company for the carriage of the airmail:

Fiscal Year	Pounds Airmail Carried	Postal Revenue at \$3 per lb.	Ground Service cost at \$1 per lb.	Postal Revenue available for payment to T.C.A.	Payments to T.C.A.
1938.....	172,640	\$ 517,920	\$ 172,640	\$ 345,280	\$ 877,115
1939.....	566,831	1,700,493	566,831	1,133,662	1,754,455
1940.....	990,631	2,971,893	990,631	1,981,262	3,088,674
1941.....	1,516,949	4,550,838	1,516,946	3,033,892	2,995,438

There is a surplus on the business from the 2-cent contribution of \$1,516,000 to apply to ordinary overhead, sorting, delivery, etc., and a surplus of \$50,000 roughly in actual earnings above what was paid the T.C.A. under the contract. That necessarily arises by the nature of the contract in that whatever other earnings the T.C.A. makes it reduces the post office earnings because there is a revision every year based upon what the line earns, and as your passenger and express revenues grow it brings down your air mail rate. There has been more mail; a 60 per cent increase in express; and the same percentage increase in passengers, has given the line more revenue which is applied to the air mail rate. I can see a great improvement in the situation.

Mr. NICHOLSON: If the 45-cent rate applied for the entire year, have you any idea what the surplus might be to the Post Office Department?

Mr. SYMINGTON: I think there would not be a surplus. I cannot give you those exact figures, but I have some figures from the Post Office Department.

Hon. Mr. HOWE: I do not think you understood the question. He said if the 45-cent rate had gone for the year what would have been the profits of the Post Office Department?

Mr. SYMINGTON: I do not think there would have been any profit to the post office, but if the 45-cent rate applied for the whole year—oh, I see—well, there would have been a larger profit, considerably. I cannot give you the increase, but depending upon T.C.A. results under the contract it automatically is reduced or increased.

Mr. HARRIS: The word "profit" comes in there after you have taken full cognizance of all overhead in regard to the aggregate conduct of the post office facilities.

Hon. Mr. HOWE: What the Post Office Department did was to take all of the 6-cent rate, all of the \$3 rate—

Mr. HARRIS: Don't you think the words "credit balance" would be better.

Mr. SYMINGTON: I have no objection because we are not a profit making concern, but the facts are that on the post office's own method of calculating, whether it be good or bad, they did take 2 cents for their overhead.

Mr. HARRIS: As a matter of fact, it is not profit only, but credit balance?

Mr. SYMINGTON: Well, whatever you care to call it, but from the standpoint of our position under the contract there it is.

Mr. HARRIS: The Post Office Department does not pay any rent for the buildings they are occupying and on the service leading up to the time you took the matter over.

Mr. SYMINGTON: Except this, while it is quite true they do not charge themselves any rent, we contribute \$1,515,000 to whatever ground costs they have; whether that is a right proportion or not I do not know.

Mr. HARRIS: As long as the statement is fair I am satisfied.

Mr. GRAY: Is there any provision in the contract for readjustment of the contract between the Post Office Department and the T.C.A., or must we go on this basis, because eventually you will be working for the post office?

Mr. SYMINGTON: There is a yearly adjustment up or down. If we make a profit as we did last year then the rate for this year will be reduced automatically, taking the costs, the profit, according to the miles we are budgeted to fly. If we had a deficit the rate from the post office is raised.

Mr. GRAY: For the ensuing year?

Mr. SYMINGTON: For the ensuing year. May I point out to the committee at this stage that the reduction from 60 cents to 45 cents from last April was not in accordance with the contract. I may say quite frankly that I protested vigorously against it; I did not see why—we being a company that were trying to run on a business basis—why the contract should be broken in our case rather than in the case of a private concern. But the government felt that under all the circumstances it should be reduced, as we were earning a great deal of money because of the expansion that was taking place. My hope had been that we would be permitted, and it was the scheme of the original contract, to make this line financially safe; that we would be permitted to build up a reserve so that we need never come back to the government for more money.

Mr. GRAY: Hear, hear.

Mr. SYMINGTON: Planes change. This is a rapidly moving industry. The planes we have to-day may be of no use to us at all after the war. I am satisfied they won't be. I had anticipated that by that time the company would have gotten into a position by reason of the contract that we made with the government that we would not have to come back to the government for money. However, the government thought that was the wise thing to do; and we, of

course, willingly complied: Had that not been done we would have had a reserve of probably, I should think, nearly a million dollars more; and we would have had a liquid position which would have placed us in a very strong position, looking forward to the necessary changes which will have to take place in equipment after the war. However, that is done.

Mr. BERCOVITCH: How many planes have you?

Mr. SYMINGTON: We have 18 planes.

Mr. NICHOLSON: If the increase in volume of air mail continues next year and if the 45-cent rate is maintained what would be the amount of the profit to the Post Office Department during this year?

Mr. SYMINGTON: We anticipate a surplus of \$24,000 in our budget.

Mr. NICHOLSON: I am speaking of the post office.

Mr. SYMINGTON: Oh, the post office. The way things stand at this stage, if these figures of the post office are right, every pound of mail we carry gives a 100 per cent increase in surplus because the expense is all being taken care of by the present volume. It is purely a question of volume. Once you get up to moving enough air mail to pay your expenses then everything added on to it is completely net.

Mr. NICHOLSON: These figures you have given indicate a tremendous increase each year since 1938; if that rate of increase is continued it will ensure the post office a handsome profit?

Mr. SYMINGTON: That is so—but “handsome”; what will we say—credit balance.

Mr. NICHOLSON: Have you any figures to show how much this credit balance will be if this increase is maintained?

Mr. SYMINGTON: Well, every pound of air mail increase will earn them approximately \$3.

Mr. JACKMAN: In view of the fact that the more business the air lines do the more profit there should be, or the higher percentage of profit, I find it difficult to understand why the operating ratio of the T.C.A. went up to such an extent last year resulting in a great decrease in “net,” despite a great increase in operating revenues and those factors which the president of the T.C.A. mentioned—the increase in the cost of gasoline and the payment of cost of living bonuses. I wonder if he would be good enough to give us the figures on these two items.

Mr. SYMINGTON: I will get you those figures. I might say, however, that our revenue in 1941 for mail was only 42 cents per miles flown, instead of 53·86 in 1940; that arising by reason of the reduction in the mail rate. The result whether you increase the expense or reduce the revenue, of course, increases your operating ratio. Trans-Canada can never change its operating ratio very much; if it makes a profit down goes the mail rate, and if it has a loss, of course, up goes that rate; so that it is difficult to talk in terms of operating ratio under a contract of that kind. I would point out, of course, that our mail revenue per mile flown was reduced 11·86 cents in 1941 as compared with 1942. That was one way through which our revenue was reduced; but, as Mr. Harris very properly pointed out, 53 per cent of our business is mail.

Mr. DONNELLY: If you have to reduce your rates according to your profits you will never have any revenue built up.

Mr. SYMINGTON: Quite true, we will never be able to build up any very great reserve in Trans-Canada; that is quite true.

Mr. DONNELLY: And if you believe, as I think we all believe, that when this war is over your revenue is going to decrease, you are going to run into difficult times if you have no reserve.

Mr. SYMINGTON: That may be. That depends what the future brings. I have some views on that; those views perhaps may be wrong; everybody is inclined to take it for granted that business will decline and with it the volume of air mail, that people generally will not use air mail to the extent that they are now using it, that they will not be using it as much as they are to-day, and naturally rates will have to go up. My own judgment is that it will be the reverse; I think that air travel will be very much greater; that remains to be seen.

Hon. Mr. HOWE: The view of the government was that we would set this company up so that it would never earn much profit, it would always be on a safe basis; if they get a bad year they will have a corresponding better year, and in that way sort of reach an automatic adjustment. But we took the view that it should be a safe operation; that is, the company should always be allowed to earn its expenses. The post office subsidized it for the first three years—it had expected to have to subsidize it for five years; but the war, of course, has brought that period to a close sooner than we had expected and we asked the company to make that adjustment because last year was a war year and revenues were hard to find. We thought that the company being able to help out should help out. That is why we made an abrupt adjustment last year rather than an automatic adjustment which would have been considerably less.

Mr. GRAY: While I can see what the minister and the government did, in my own view it does seem to me that we should at least express our opinion in connection with setting up a reserve for Trans-Canada. They have painted this picture; they have built up a creditable organization; they are doing an excellent work; and my thought is that in the future, and the not too distant future, once we have built up these lines under Trans-Canada Air Lines we are going to have a competing organization that is going to be set up. As you know, they have already acquired lines all over the country, and unless we prepare for it we are going to be faced with the same type of situation that we have been faced with in connection with the railways. That is my own personal view; and I think the government and the management of the Trans-Canada Air Lines should seriously consider a revision of their policy in order to set up a reserve; otherwise, we are going to be faced with a very serious situation as I see it in the next few years.

The CHAIRMAN: Is there any further discussion; if not, we will proceed.

Mr. MAYBANK: How is that competing line getting along? Have you any knowledge about that? Are you watching it?

Mr. SYMINGTON: Well, of course, we are watching it very closely. Theoretically there should be no competition; and I hope the government and parliament will continue that policy. The policy on Trans-Canada as laid down was that Trans-Canada running a certain high class and extensive service in a sparsely populated country should operate all main line services or services up to the standard of main line, because, the government had to spend a great deal of money in making landing fields, radio communications, meteorological stations, and so on. It is government money which makes it possible. It is post office money that makes it possible. This is essentially a government operation; and, furthermore, all international services being an arrangement between governments should be operated by the government concerned. To private enterprise was left what may in the long run prove to be the most profitable field; namely, branch line service not up to the standard of main line service, plus freight carrying into the northern country—that should be left to private enterprise; and that was the policy as stated in parliament and to the management of Trans-Canada. To my mind, unless you want to repeat the railway situation, that policy should be continued; but, that is a matter for you gentlemen, of course. Up to the moment that policy has been continued; but you see signs

in propaganda and in the newspapers of the setting up of great organizations which rather indicate that a competitive situation is contemplated. I am not worrying about it; that rests with the government and parliament in the carrying out of their policy.

Hon. Mr. HOWE: Of course, there can be no competitive situation unless parliament revises the Trans-Canada Act. The Trans-Canada Act protects these lines against competing services. I do not think parliament will ever be disposed to modify it. I do not see why they should. This franchise is owned by the people of Canada. While they might abrogate the Act to let private enterprise in, I do not think they will.

Mr. Sissons: Does Trans-Canada plan to extend the service to Alaska?

Hon. Mr. HOWE: That is the programme, yes.

Mr. SYMINGTON: Trans-Canada plans to extend its service to Alaska, being an international service, with a foreign government, and being a port, a gateway, to an airway across the world. In my judgment, Canada occupies a very important position in the future of the air world. It is on the great circle. It is the shortest way. It has stable weather. It must inevitably take part, in my judgment, in both trans-Pacific and trans-Atlantic air services by agreement with foreign countries. These air lines in foreign countries, with the exception of the United States, are all government air lines. The government is, of course, very much interested in the position of Canada in transportation in the air, over the ocean or any other place; and a competitive situation in Canada would, to my mind, be perfectly fatal to that policy.

Now, the general intentions of Trans-Canada are these—as we know them at the moment, and subject always to the government and parliament—that whatever part Canada takes in these services will be performed by some arm of Trans-Canada; because we have built up an organization on a service which I think I can say with pardonable pride does not obtain any other place. We have built it up from the ground. We have shown that it could be done. I don't think there is an air line any place that could have 18 planes fly 7,000,000 miles, and fly them safely. It is unheard of, so far as I know, any place else.

Mr. HARRIS: You have had your exceptions.

Mr. SYMINGTON: That is a comparative term. We have had one exception, quite true. But it is considered a safe flying line. It is a line which was built up on the principle of safety. It was built up first and foremost on an excellent ground service. That is what is necessary to any air line, the ground service counts first and foremost. Second, is the training of your pilots; because, the human element always enters into it; but the correct training of your pilots, plus your ground work are the first essentials to the safe operation of an air line. After that, of course, you must use eternal vigilance to keep everybody up to the mark; you have to be very close to the situation; and you have to pray. That is what air line operation amounts to.

But the moment adequate equipment, in the shape of four-engined machines, becomes available Trans-Canada Air Lines will change its present route from Winnipeg and fly from Winnipeg to Port Arthur and Fort William, the Sault, and Toronto. The east line will branch off, instead of going North Bay-Toronto, and it will go straight across; the Toronto line will connect up with Montreal, and go to New York; because that is the shortest and the best populated route. But until the four-engined machine comes in it is not safe to fly over the Great Lakes. But it is coming, just as sure as we are here, the minute the war is over. There will be, as I say, a great deal of international traffic; and, of course, it is for parliament to say what is going to be done about it. But at the moment connecting lines are being watched closely by Trans-Canada Air Lines for the purpose of eliminating competition in a service which essentially cannot stand competition, because the cost per cubic foot of carriage does not permit it; it is too expensive a service.

Mr. Sissons: We have the newspaper reports that Trans-Canada services would be extended to Alaska this year. Can you tell us anything about that?

Mr. SYMINGTON: The service is slated to be extended the minute we can get the planes. We have applied, and have at the moment acceptance by the United States authorities, for the right to get these planes this fall, commencing August 1st. If we get them I would expect that the service will start; if we do not, it won't. It all depends on the war situation and the materials and planes that we can get; and that depends upon the government.

Mr. NICHOLSON: What rates are to be paid for the carrying of mail on these future lines by the post office people?

Mr. SYMINGTON: That I cannot say.

The CHAIRMAN: All right, proceed.

Mr. SYMINGTON: Next we come to:

Income Charges and Interest	199,221.24	197,186.20	2,035.04
Surplus	\$302,436.79	\$539,263.15	\$236,826.36

Operating revenues totalled \$5,807,794, an increase of \$1,215,411 or 26% over the preceding year, which indicates a substantial growth in the earning power of the company. Passenger revenues increased \$774,211 or 50%; mail revenues increased \$225,758; express and miscellaneous revenues increased \$215,442. Effective April 1st the rate for the carriage of air mail was reduced from 60 cents to 45 cents a mile. Partly as a result of this reduction in rate, and partly due to the increase in passenger business, mail revenue contributed 53% of the total revenue as compared with 62% in 1940 and 70% in 1939.

Operating expenses totalled \$5,306,136, an increase of \$1,450,202 or 38% over the preceding year. Approximately one half of the increase is accounted for by expansion of services; the remainder represents increased labour and material costs due to war conditions. Payrolls increased \$597,398; gasoline and oil \$285,883; materials and supplies \$359,403; rentals, office expenses, advertising and miscellaneous expenses \$138,903; depreciation and insurance \$68,615.

Mr. HARRIS: Before you leave that last bit there about depreciation and insurance, I would like to ask what was the depreciation for the year 1941?

Mr. SYMINGTON: On aircraft it was \$567,953.87; on ground facilities it was \$140,571.12; a total of \$707,000.

Mr. HARRIS: Yes. What was the cost of the insurance for the year 1941?

Mr. SYMINGTON: I will get that for you in a moment: That insurance for 1941 was \$340,930.87.

Mr. HARRIS: Who were the premiums paid to? Was it between a number of insurance companies?

Mr. SYMINGTON: Oh, there are pages of names here.

Mr. HARRIS: What is the main item; for example, the 18 planes that you spoke about? They are insured, are they not?

Mr. SYMINGTON: The 18 planes are insured—except that we carry our own crash insurance. That is for the planes.

Mr. HARRIS: You carry your crash insurance; do you carry liability insurance?

Mr. SYMINGTON: No.

Mr. HARRIS: What is the name of the company or organization which handles the liability insurance?

Mr. SYMINGTON: That is the British-America Insurance Company, Limited.

Mr. HARRIS: Where are they located?

Mr. SYMINGTON: They are in Toronto. I can read you what they carry: fire, in flight and not in flight, \$1,494,400; transportation, not in flight; wind-storm, not in flight; land damage, not in flight.

Mr. HARRIS: Who carries the liability insurance in flight?

Mr. SYMINGTON: The same people.

Mr. HARRIS: Have the claims for the Armstrong crash been settled, or are they still in court.

Mr. SYMINGTON: They have nearly all been settled, except the ones which are in court and I think the insurance company is taking an appeal on those.

Mr. HARRIS: Who is taking the appeal?

Mr. SYMINGTON: The insurance company.

Mr. HARRIS: Who is representing the insurance company—it is a Canadian organization?

Mr. SYMINGTON: Oh, yes; it is this company, the British-America Insurance Company.

Mr. HARRIS: With headquarters at Toronto?

Mr. SYMINGTON: With headquarters at Toronto.

Mr. HARRIS: How many claims have been settled?

Mr. SYMINGTON: Seven have been settled and there are two pending.

Mr. HARRIS: And the two that are pending are to be appealed, I understand.

Mr. SYMINGTON: Appealed, yes.

Mr. HARRIS: By the Canadian insurance company concerned?

Mr. SYMINGTON: Yes. The appeal, I may say, is being taken to settle apparently a legal point. I do not think there is any objection to the amount of the verdict. As you, I think, understand, there is a doctrine called *res ipsa loquitur* in law which says, "the thing speaks for itself". If that applies to the air line company there will be responsibility in every case. The insurance company is anxious to find out whether the doctrine applies or not, and this is a particularly favourable case. If it does, it may have an important bearing on our future operations—when a jury are unable to find any negligence. It is based on a legal proposition to the effect, if an accident occurs, is there liability? They are trying to settle that point, I understand.

Mr. HARRIS: What is the total cost so far of premiums?

Mr. SYMINGTON: \$340,000; and that covers, Mr. Harris, a great number too. It also covers a number of different types of insurance. I was surprised when we came to review them. I can read you the headings, if you like.

Mr. HARRIS: Mr. Chairman, could it be put on the record? Would the chair permit that to be taken into the record?

The CHAIRMAN: If the committee so desires; I have no objection.

Mr. SYMINGTON: We will furnish the headings of the insurance carried.

Mr. HARRIS: I was going to ask this witness just one more question: how do insurance premiums compare with the liability, or the cost, if the company had its own insurance?

Mr. SYMINGTON: We were going over that last week, Mr. Harris; there are certain types of insurance which I think we could carry ourselves now that we are getting in a better position.

Mr. HARRIS: Is it not a fact that the railway company as a matter of policy does not carry insurance to anything like the extent it is being carried by the air lines?

Mr. SYMINGTON: Yes; that is so; except this, that the railway in common with the air lines takes out insurance for anything in the nature of a catastrophe; something where a large sum of money is involved, where it might hurt the company, where the risk is perhaps unduly great.

Mr. HARRIS: Mr. Chairman, does the T.C.A. follow the same policy as Canadian National Railways with regard to insurance; or, dealing with these individual items themselves—what I am getting at, Mr. Chairman, is; there are quite a number of insurance policies issued to Trans-Canada Air Lines for services rendered by the insurance companies which do not apply in the case of the Canadian National Railways, and I would like to have a statement as to why this directorate consider it necessary to carry certain insurances while the other directorate does not consider it necessary to carry like insurance?

Hon. Mr. HOWE: I think the explanation of that is that one crash here could wipe out the capital of this company if it is bad enough. That is a considered risk which the railway does insure against. For instance, they insure the Canadian National Steamship Line's boats; the loss of one steamship would wipe out its capital.

Mr. HARRIS: I would ask that that statement be made as comprehensible as possible.

Mr. SYMINGTON: The Trans-Canada looks after their insurance quite apart from the railway altogether.

Mr. BERCOVITCH: What is the total depreciation?

Mr. SYMINGTON: Do you mean the present reserve against; or the annual—I can give you the annual, I think.

Hon. Mr. HOWE: It is shown on the last page, here.

Mr. SYMINGTON: The accrued depreciation to date is \$1,858,365.86; and that was after writing off the Armstrong plane, the plane that was in the crash.

Mr. NICHOLSON: Do I understand that the cost of the insurance includes the losses at Armstrong?

Mr. SYMINGTON: I do not so understand.

Mr. NICHOLSON: Might I ask how much the dependants of each person in that crash were paid, how much they were paid in the case of a crash of that sort?

Mr. SYMINGTON: They are paid whatever settlement is made; or, whatever a jury awards them.

Mr. NICHOLSON: Are those figures to go on the record?

The CHAIRMAN: Mr. Harris has asked that they be placed on the record.

I would like to suggest, gentlemen, if you would listen to the repartee that goes on between the speaker and the interrogator you probably would not have to ask a number of questions that are asked several times, thereby delaying the committee.

Proceed, Mr. Symington, please.

Mr. HARRIS: Mr. Chairman, let us dispose of this first.

The CHAIRMAN: All right.

Mr. HARRIS: The question asked was, what was the award that was made in the case of this crash at Armstrong; it is common knowledge, and it should go on the record. Hon. members here asked that question.

The CHAIRMAN: He asked a question that had been asked by you, and that had been answered to you.

Mr. NICHOLSON: I do not think that question was the same.

Mr. HARRIS: I think not, and I endorse what he says.

Mr. SYMINGTON: I haven't that figure here, because the verdict was in 1942; but Mr. Larson informs me that the verdict in that particular case amounted to \$19,400.

Mr. HARRIS: You are speaking of the two contested ones?

Mr. SYMINGTON: Yes.

Mr. HARRIS: What was paid with respect to the ones settled out of court?

Mr. SYMINGTON: \$47,361.45, in total.

Mr. HARRIS: That is the total amount?

Mr. SYMINGTON: Yes.

Mr. HARRIS: How many cases?

Mr. SYMINGTON: I believe there were seven.

Mr. HARRIS: And the unsettled amount is \$19,000. Thank you.

Mr. SYMINGTON: These settlements, I may say, were of course made by the insurance company, not by us.

Mr. HARRIS: And the latter were contested by the insurance company?

Mr. SYMINGTON: Yes. They made the settlements, of course, under the insurance policy. They take care of these claims.

Mr. HARRIS: If I might make another observation, I would say that the settlements that were made, to my mind, Mr. Chairman, have been reasonably good. As to the other two cases; as a layman, I do not know anything about the settlements being contested; the awards being lower than those obtained in the cases that were settled. I do not see why we should ask these unfortunate people, as in these two latter cases to undergo the delay and difficulty which the situation brings to them. I happen to know that they are in difficult circumstances and that private citizens have had to come to the rescue in order to keep them going.

Hon. Mr. HOWE: How do you know that to be the case?

Mr. HARRIS: I put money up out of my own pocket; is that good enough?

Hon. Mr. HOWE: Of the two that were contested?

Mr. HARRIS: Yes. I would rather the press would not put that in.

Mr. GRAY: Is it clear to you that this is not being done by the T.C.A. but by a private company?

Mr. HARRIS: Quite.

Mr. GRAY: I think it ought to be clear to all of us now.

Mr. HARRIS: I am not saying it as any reflection on the T.C.A. Admittedly it is a case which might reflect on the whole organization if it is not promptly settled; and the appeal that I make now, inasmuch that the evidence has come out, is that the insurance companies issuing the policies under which they assume the liability of these risks should be of such a class and kind as will keep the good name of the T.C.A. on a very high plane when it comes to settling accidents.

Mr. SYMINGTON: I can only say with reference to that that the company is I think one of the best; secondly, that we did everything we could to try to get them settled, but of course they have the right to defend. So far as we are concerned, we do not like the publicity of it.

Mr. HARRIS: We do not, either.

The CHAIRMAN: Next.

Mr. SYMINGTON: Operations and Development:—

Route miles operated at December 31 totalled 4,024, and daily scheduled miles 18,764, an increase compared with December 31, 1940, of 362 miles and 3,620 miles respectively. Revenue plane miles flown during the year were 6,384,651, as compared with 4,770,219 in 1940, an increase of 1,614,432. 97.2 per cent of the mileage scheduled was completed. Total miles flown, including training, amounted to 7,274,815, as compared with 5,258,984 in 1940.

Mr. HAZEN: What is that about training miles?

Mr. SYMINGTON: That means training pilots and check tests of pilots.

The CHAIRMAN: Next.

Mr. SYMINGTON: Passenger Service:—

Revenue passengers numbered 85,154 in 1941, as compared with 53,180 in 1940, an increase of 31,974 or 60 per cent. The average passenger journey was 520 miles, as compared with 551 miles in 1940. The percentage of passenger occupancy (passengers carried in relation to seat capacity) was 67 per cent, as compared with 63 per cent in 1940. On the transcontinental service the percentage was 71 per cent as compared with 66 per cent in 1940.

As an added service to passengers a central reservation bureau was established to control the assignment of space for all trips.

In common with all air transport lines on this continent, the company has suffered loss of revenue, and its prospective patrons have experienced inconvenience, because of "no shows", i.e., passengers who make a reservation and then fail to appear at plane departure time or who cancel their reservations immediately prior to departure. Measures have been taken which are effecting an improvement in this regard.

Mr. HANSON: What steps have been taken in that regard?

Mr. SYMINGTON: What we are doing now or trying to do is that we call up the people continuously, and three hours before the plane leaves they must take up their ticket and decide that they are going or they cannot get a seat. It is working out pretty well. I am not entirely satisfied with it yet.

Mr. DONNELLY: Are there any special rates for the army or the navy or any militia men?

Mr. SYMINGTON: No, sir, there are no special rates; there are some privileges in the matter of "must rides" which are limited. They must come from the department or from the officer commanding in Vancouver or Halifax, and they are strictly regulated. But on military service there are these "must rides" and somebody must give up a seat. But there is no discount or passes.

Mr. DONNELLY: Can you give us any idea of what the percentage of passengers in military service is?

Mr. SYMINGTON: We have figured it as 80 per cent.

Mr. DONNELLY: 80 per cent?

Mr. SYMINGTON: Now, that is not the services, but those on direct war work, manufacturing, munitions, and all that sort of thing. That 80 per cent represents people who are travelling in connection with the war.

Mr. SHAW: I judge from the statement made here that there have been no changes made in the passenger fare rates; am I correct in that?

Mr. SYMINGTON: Yes.

Mr. SHAW: How do present day rates compare with those when the service was first inaugurated?

Mr. SYMINGTON: They are the same.

Mr. SHAW: From a previous statement I understand that revisions or reductions are being made in air mail service in order, as you indicated, to offset too great a surplus in your operations; in other words, you are not contemplating the building up of a substantial surplus, and in order to offset that you are reducing air mail rates. Has any consideration been given to the reduction of passenger rates?

Mr. SYMINGTON: No consideration has been given to the reduction of passenger rates. The rates are the rates fixed by the board—filed with the board—and are the same as the United States rates on our competing lines.

Hon. Mr. HOWE: That is provided for in the Trans-Canada Act.

Mr. DONNELLY: If 80 per cent is due to the war it seems to me that your contention that you should set up a reserve is absolutely well founded.

Mr. SYMINGTON: It may be, sir, but when I speak about it being due to the war it is a business war, and I think a good many of those enterprises will still be in business after the war; at least one would hope so.

Hon. Mr. HOWE: If we had twice the equipment we have we could sell twice the number of seats. The service is away below the requirement. I do not think there will be any falling off after the war.

Mr. JACKMAN: With regard to the air mail service, notwithstanding the decrease in the poundage rate paid by the post office the T.C.A. received \$225,758 more in revenue from the post office for the service rendered, and the increases in passenger service and express and miscellaneous were even more substantial. I wonder how it is that the witness can say that the increase in operating ratio was due to the decrease in the poundage rate.

Mr. SYMINGTON: The better position in the mail service arises by reason of the greater number of miles flown, and we are paid according to the miles flown for the mail. The minute you increase your miles you increase your expense, and instead of getting 60 cents we got 45 cents a mile whereas our expenses were the same or higher on the increased mileage.

Mr. JACKMAN: The extra pounds of mail do not cost you as much.

Mr. SYMINGTON: We get nothing for the extra cost of mail, it is mileage. The growth of the mail is all for the post office; we get our rate even though there is not a letter carried. As it is added to that it goes to the post office. This mail can grow to a tremendous weight and that is all for the benefit of the post office and to our disadvantage because it is more weight to carry and we get no more for it.

Mr. JACKMAN: You did get \$225,000.

Mr. SYMINGTON: We got that because the mileage was increased from Halifax to Moncton and from Toronto to New York and we added a service between Toronto and Montreal. The minute we add to the mileage then our revenue increases, but an addition to the poundage of mail does not increase our revenue at all—it is the added mileage flown that increases our revenue. I see that you do not understand it yet. Our contract you see is so much a mile on an approved route by the post office, so that if you added, for instance, Toronto to New York we get an added mileage under the post office contract.

Mr. BERCOVITCH: Whether you carry mail or not?

Mr. SYMINGTON: Yes, whether we carry mail or not. But they have the right to use it for mail, and if the mail is heavy we have to leave passenger seats vacant because the post office has the first call. That is, the heavier the mail we are carrying the fewer passengers we can put in. We get no more money but our revenue comes from the increased mileage.

Mr. DONNELLY: You get paid so much a pound for every mile you fly.

Mr. SYMINGTON: No, so much every mile; the poundage does not matter.

Mr. DONNELLY: For example, you put on two services across the continent. Now, do you get paid double mileage?

Mr. SYMINGTON: Yes.

Mr. NICHOLSON: The minister mentioned additional planes that could be used. I notice that the percentage of passengers is 71 per cent; is that as high a percentage as you hope to get?

Mr. SYMINGTON: Well, that is considered to be a high percentage. You start out with a plane from Vancouver going to Halifax. I suppose not one

passenger in ten would be going right through. One man might be going to Lethbridge, and if we do not pick up a passenger at Lethbridge that reduces the occupancy. If we could take in a passenger every time we stop and let a passenger off that would give us 100 per cent occupancy. Very often you start off with a full plane at Vancouver and someone gets off at Lethbridge and you do not fill that place until you get to Winnipeg, and that reduces your percentage down in that case below 70 per cent of occupancy. You cannot occupy a plane that stops—unless it is a through one—100 per cent or anything like it; 71 per cent is considered a very high percentage of occupancy.

Mr. DONNELLY: What is the American occupancy?

Hon. Mr. HOWE: There is no system in the States that ever reaches 70 per cent. They have always told us that it could not be done. Trans-Canada has the highest rate of occupancy.

Mr. SYMINGTON: In industry 65 per cent has been considered the saturation point.

Mr. BERCOVITCH: In the hotel business the same thing applies.

Mr. POULIOT: Is it possible to know what mail is sent by the various departments of government and what is sent by other people?

Mr. SYMINGTON: It is not possible for me to tell you, sir. I think the post office would have to tell you that.

Mr. POULIOT: Are there any officers of the Post Office Department here?

Mr. SYMINGTON: I do not know, sir.

Mr. POULIOT: Could they be called to give us that information?

The CHAIRMAN: Yes, you can have them here if you ask for them; if you want to subject them to an interrogation.

Mr. POULIOT: I want to know what quantity of air mail is sent by the various branches of the government as compared to the mail from other people.

The CHAIRMAN: Well, if the members desire that the post office officials be here to answer interrogations we will request them to come.

Mr. SYMINGTON: I suppose we could place it this way, that our mail out of Ottawa is not out of proportion to our mail out of other centres, if you are speaking of government departments here.

Mr. POULIOT: It might apply to branches of government throughout the country.

Mr. SYMINGTON: It may, but we have no means of checking it. The mail bags come to us and we turn them over to the post office at delivery.

Mr. JACKMAN: I wonder if the witness would tell us how they reckon how many passengers are on government business or belong to the services?

Mr. SYMINGTON: We make periodic tests in the traffic business in the air line. We have to keep very close touch with the passengers, not only for the purpose of communicating with them or knowing where their business is but also on the question of preference of rides for war as opposed to civilian business.

Mr. JACKMAN: The only priorities that the T.C.A. grant are to men in the armed services?

Mr. SYMINGTON: That is right.

The CHAIRMAN: Next item.

Mr. SYMINGTON: Air Mail Service:—

There was a marked increase during the year in the use made of the air mail service. Miles flown with air mail increased 34 per cent; pounds of air mail carried increased 50 per cent; and pound miles of air mail carried increased 60 per cent, all indicating an increasing mail load per

trip, resulting in more revenue to the Post Office. Mail loads now approximate 5,000 pounds per day. This represents about a quarter of a million air mail letters per day. On the transcontinental night trips the heavy mail load occasionally necessitates some passenger accommodation being withheld from sale.

Mr. NICHOLSON: I asked for the rates paid by the feeder lines on air mail carried. It was said they did not have that information before the rate was reduced from 60 to 45. It seems to me you should have that information—the rates paid by the Post Office Department to other competing lines?

Mr. SYMINGTON: That may be so, but you see our rate is fixed by an Act of the Parliament of Canada which says it shall be 60 cents and each year an account will be taken to show whether we made a profit or loss and if we make a profit the air mail is reduced and if we make a loss the air mail rate is increased. It bears no relation under the statute to what they may be paying somebody who is running up to the north country; it is a thing separate and apart and is fixed by the Act itself.

Mr. NICHOLSON: Did I not understand that the reduction should not have taken place for some time?

Mr. SYMINGTON: The reduction which took place last April should not have taken place until now—at least December 31st.

Mr. NICHOLSON: Who brought pressure on you to reduce this rate?

Mr. SYMINGTON: The government said: you are making too much money and this is a war year and we want you to reduce your rate. Although we protested the rate was reduced.

Mr. DONNELLY: I understand at the present time they have a daily or a twice daily mail service between Regina and Moose Jaw and Regina and Saskatoon; is that the Transcontinental?

Mr. SYMINGTON: That is the prairie—the C.P.R. air services. It used to be the Prairie Air Services.

The CHAIRMAN: Next item.

Mr. SYMINGTON: Air Express Service:—

Air express service continues to gain in popularity as its speed and convenience are recognized. During the year 173,192 pounds of air express were carried, as compared with 105,788 pounds in 1940, a gain of 64 per cent. The average distance a shipment was carried was 1,400 miles, or approximately the distance between Montreal and Winnipeg.

Following the inauguration of the Toronto-New York service, arrangements were made with the Railway Express Agency and the Canadian National Express for an air express service between points in Canada and points in the United States.

Mr. SHAW: Are these express service rates also established by statute?

Mr. SYMINGTON: No, they are established by the board; only the mail rate is established by statute.

Mr. SHAW: Has anything taken place with respect to the rates charged on express?

Mr. SYMINGTON: No, they are fixed by the Board of Transport Commissioners, approved by them. They are the same rates as obtain in the United States and in Canada.

Mr. SHAW: How frequently are they reviewed by the board?

Mr. SYMINGTON: When anybody makes a complaint to the board that the rates are unreasonable there is a hearing.

Mr. SHAW: I would judge that any individual could register a complaint?

Mr. SYMINGTON: Yes.

Mr. SHAW: And he would register that complaint with the board?

Mr. SYMINGTON: Yes.

Mr. DONNELLY: How does the air mail express rate compare with the railroad express rates?

Mr. SYMINGTON: It is very much higher, of course.

Mr. DONNELLY: What is the comparison?

Mr. SYMINGTON: I do not think you can make a comparison, but the air express rates are very much higher—three or four times at least. Really air express would only be useful in an emergency, nobody would use it ordinarily—if somebody wants fresh flowers or a piece of machinery in a hurry and it is worth while to pay for that service they pay for it.

Service Extensions:—

Service was extended from Moncton to Halifax on April 16th. The flight from Montreal to Halifax occupies less than four hours. The service is filling a definite need and is well patronized.

The Civil Aeronautics Board of the United States granted the company a licence to operate between Toronto and New York. An agreement was entered into with the city of New York for terminal facilities at La Guardia Airport and with American Airlines for the servicing of this company's equipment. Service was inaugurated on May 10th on the basis of two daily trips and increased to three on June 16th. The extension of the service to New York provides a valuable passenger, mail and express connection to United States points and with Trans-Atlantic, Caribbean and South American services.

Mr. HANSON: The minister stated a service would be inaugurated to Sydney; do you know when that will go into force?

Mr. SYMINGTON: That service is opening to-morrow. It has been flown for familiarization purposes since April and it is opening May 1st.

Mr. EMMERSON: Is that extension to Sydney alone?

Mr. SYMINGTON: No, Newfoundland.

Mr. JACKMAN: Are the American services coming into Canada now?

Mr. SYMINGTON: There is a service from Seattle to Vancouver, a short service into Lethbridge by the Western Air Line, a service into Winnipeg from Minneapolis by the North-West Lines and there is a service into Moncton by the Northeastern Lines.

Hon. Mr. HOWE: There is a service into Montreal.

Mr. SYMINGTON: I do not know whether that was originally Canadian Colonial Company—I think it is now a Colonial Company which is an American company.

Mr. JACKMAN: There is nothing coming into Toronto now?

Mr. SYMINGTON: Yes.

Hon. Mr. HOWE: Yes, the American Air Lines fly into Toronto from Buffalo.

Mr. SYMINGTON: Yes, they fly into Toronto from Buffalo.

Mr. JACKMAN: The one flying from Toronto to Buffalo is the only one which competes with the T.C.A. service?

Mr. SYMINGTON: Yes, the only one, and it is not competitive to any extent because it is not a through line. Our service to New York is a 2-hour service, and they cannot compete.

Mr. BERCOVITCH: Two hours from Montreal?

Mr. SYMINGTON: Two hours from Toronto.

Mr. HANSON: With regard to the service from Spokane to Fairbanks, Alaska, will they be allowed to take Canadian passengers?

Mr. SYMINGTON: I understand not, sir.

Mr. HANSON: There are two services.

Mr. SYMINGTON: Yes.

The CHAIRMAN: Next item.

Mr. SYMINGTON: Price Edward Island Service:—

On April 15th, Canadian Airways Limited cancelled its service between Moncton, Summerside and Charlottetown. On request of the Postmaster General, Trans-Canada temporarily operated a service until December 8th, when the Post Office Department entered into a contract with Maritime Central Airways Limited.

Property and Equipment:—

Flight Equipment:—As of December 31, 1941, the flight equipment of the company consisted of:—

12 Lockheed 14H Aircraft, equipped with two Pratt and Whitney Hornet engines each of 850 horsepower.

6 Lockheed Lodestar Aircraft, equipped with two Pratt and Whitney Twin-row Wasp engines each of 1,200 horsepower.

Retirements during the year were: two Lockheed 14H Aircraft requisitioned by the Dominion Government and one Lockheed 14H Aircraft destroyed in the accident at Armstrong, referred to in last year's report.

To provide for replacement of these three aircraft, and for additional flight equipment required for service extensions, the Office of Production Management, Washington, has allocated to the company six Lockheed Lodestar aircraft for delivery in August and September of the current year.

A contract was entered into for purchase of Twin-row Wasp engines for replacement of Hornet engines in the 14H aircraft. Engineering work on this project was completed during the year and deliveries of the engines are now being made. It is expected that this programme will be completed by the late summer of 1942.

Mr. JACKMAN: I think it was about two years ago when the matter of equipment was up that I suggested that possibly the T.C.A. should not expand its services at that time because of the very urgent need for those larger aircraft in the old country. The answer given to me I thought was reasonably satisfactory at that time, namely that those particular planes would not be used anyway and were produced in a factory which did not have orders in the United States, but I noticed an item in one of the American journals that the T.C.A. had had to give up certain of its planes in order to facilitate trans-oceanic flights or for other war purposes.

Mr. SYMINGTON: War work on this continent, carrying military people.

Mr. JACKMAN: How many did you have to give up?

Mr. SYMINGTON: Two.

Hon. Mr. HOWE: We did not have to give them, we gave them.

Mr. JACKMAN: The commercial American air lines had already given them up.

Hon. Mr. HOWE: No, we gave the first two planes that went into that plan. Why do you want to make a statement like that? We presented the first two planes that went into that pool.

Mr. JACKMAN: The reason I made the statement is that I wanted to be sure we did our share.

Hon. Mr. HOWE: We were asked to lead the way and we did. We presented the first two planes that went into that pool.

Mr. JACKMAN: The T.C.A. was the first air line on this continent to give up planes for war services?

Hon. Mr. HOWE: That went into the particular pool you are talking about—fifty planes which were required overseas.

Mr. JACKMAN: I do not know anything about the pool, but I do know that the commercial lines in the States did give up planes, and the article which I read said that the T.C.A. by reason of pressure by American air lines gave up certain planes.

Hon. Mr. HOWE: You should not believe all you read, especially in the isolationist press.

Mr. BERCOVITCH: What would be the average life of a plane?

Mr. SYMINGTON: We depreciate them every four years, but the average life is longer.

Mr. DONNELLY: After how much flying do you give a complete overhaul to each of your planes?

Mr. SYMINGTON: 600 miles in the air. They are continually serviced when they do come in, but a complete overhauling occurs after every 600 miles in the air.

Mr. DONNELLY: Where do you do that?

Mr. SYMINGTON: Largely in Winnipeg. We have a very finely equipped shop there.

The CHAIRMAN: Next item.

Mr. SYMINGTON: Ground Facilities:—

The hangar at Montreal Airport (Dorval) constructed under arrangement with the Department of Transport, was completed during the summer. Agreements were entered into with Canadian Colonial Airways Limited, Northeast Airlines, Inc., and Quebec Airways Limited, to provide those companies with storage and servicing facilities in the new hangar.

Airway Facilities

Early in the year the Department of Transport took over from the municipal authorities for the duration of the war the operation and management of the airports at Vancouver, Lethbridge, Calgary, Edmonton, Regina and Winnipeg. This measure was necessary in order to maintain adequate airway control because of the increasing use of the facilities by military aircraft for defence purposes. All airports in Canada used by the company are now under the direct control of the government.

A continuing programme of improvements to runways, field facilities, lighting, and navigational aids was carried on by the Department throughout the year, including terminal airports and intermediate and emergency fields. Owing to the heavy military and commercial traffic over Canadian airways steps are being taken by the Department to establish a system, similar to that in effect in the United States, of regional traffic control zones to expedite the movement of airborne traffic.

The weather reporting service, operated by the Meteorological Branch of the Department, was extended and its personnel augmented to meet the growing needs of military and civil aviation.

Runways and other field facilities of the Montreal Airport at Dorval were completed in August and the airport was opened on September 1. On the same date the St. Hubert Airport was transferred to the

military. The new airport is conveniently located to the city, and with the completion of the administration building early this year is one of the best equipped and most modern on the continent.

The administration buildings at Malton and Ottawa were enlarged by the department to provide for the increasing volume of traffic.

Mr. McCULLOCH: When the mail service starts to Sydney is there any chance of New Glasgow getting into that field as a feeder?

Hon. Mr. HOWE: Is your field up to Trans-Canada standards?

Mr. McCULLOCH: It is a growing community and the industries there are quite large.

Hon. Mr. HOWE: I do not think that it is possible to use that field for the present.

Mr. McCULLOCH: When the mail service is coming from Moncton to Prince Edward Island and Sydney will that be used as a feeder in the future?

Hon. Mr. HOWE: I do not think I can answer that in times like these. We have always had it in mind as an intermediate stop.

Mr. McCULLOCH: I know you had it in mind before.

Hon. Mr. HOWE: Yes.

The CHAIRMAN: Gentlemen, may I interrupt just for a moment with the query as to whether we will sit this afternoon. It is desirable that we should if the committee has no objection. Since there is no objection, we will meet at 4 o'clock.

Mr. SYMINGTON:

PERSONNEL

Personnel as at December 31, 1941, totalled 1,123, the comparative figures being as follows:—

	December 1941	31st 1940
Administrative	13	13
Captains and First Officers.....	105	89
Stewardesses	54	40
Maintenance and Overhaul.....	562	399
Dispatch and Communications.....	125	101
Station Staffs.....	82	43
Traffic	68	50
Clerical, Stores and General.....	71	54
Maintenance and Overhaul, Dorval, for British Overseas Airways Corporation.....	43	—
	<u>1,123</u>	<u>789</u>

As of December 31, sixty-six employees had enlisted for active service. The trend during the year was to employ women to release men for military service. As of December 31, 1940, there were only eighteen women employees apart from stewardesses on the company's payrolls, whereas by December 31, 1941, this number has increased to one hundred and one.

As from June 1, 1941, a wartime cost-of-living bonus has been paid to employees of the rank of foreman or under.

Mr. SHAW: Before we leave that section: I notice here, paragraph 1, certain airports which were municipal were taken over by Trans-Canada Air Lines and managed by the government; what type of arrangement or agreement was entered into with a municipality with respect to the taking over of such fields?

Hon. Mr. HOWE: The municipalities turned them over to us on the basis of a dollar a year, we undertake to make all expenditures on airports as long as we have them. The chief purpose in taking them over was to make them available for military training.

Mr. SHAW: After the war they will be returned, I presume, to the municipalities?

Hon. Mr. HOWE: Yes.

Mr. SHAW: And all the improvement will be turned over to the municipalities?

Hon. Mr. HOWE: Yes, I should think so; that is, non-removable things—the runways and that sort of thing—the buildings, I presume, would be in a different category.

Mr. HANSON: Just before you leave that; what is the percentage of women to men in your employ at the present time?

Mr. SYMINGTON: It is 20 per cent.

FINANCIAL

Balance Sheet:

The paid in capital of the company, \$3,750,000, which has all been raised by the issue of capital stock, was not increased during the year. The reserve for depreciation increased by \$546,212, and now stands at \$1,878,366. The self insurance reserve increased by \$85,345 and is now \$292,172.

Property and Equipment:

Expenditures on property and equipment totalled \$765,666, and retirements amounted to \$513,460, resulting in a net increase in investment account of \$252,206, as follows:—

EXPENDITURES:

Purchase of Pratt & Whitney Twin-row Wasp engines to replace Hornet engines—part payment.....	\$504,460	
Purchase of propeller assemblies and blades.....	65,405	
Purchase of Bendix automatic radio compasses for 14H aircraft	65,484	
Shop and servicing equipment.....	59,111	
Ground station radio equipment.....	27,781	
Betterments to aircraft and aircraft equipment.....	9,748	
Betterments to hangars and other buildings.....	8,496	
Furniture and fixtures for offices and stations, and miscellaneous	25,181	\$765,666

RETIREMENTS:

Three Lockheed 14H aircraft with two spare engines....	\$415,868	
Sperry automatic pilots sold.....	73,710	
Propeller assemblies.....	9,575	
Servicing equipment and miscellaneous.....	14,307	513,460
Net change in Investment Account.....		\$252,206

Mr. EMMERSON: In respect to the purchase of these Pratt & Whitney Wasp engines to replace the Hornets; I understand that the Pratt & Whitney were 1200 horsepower and the others only 850 horsepower.

Mr. SYMINGTON: That is correct.

Mr. EMMERSON: Can these Wasps be assembled in the same plane in place of the Hornets without any remodelling of the plane?

Mr. SYMINGTON: They can, sir; but the plane would be over-engined. We are engaged now in converting these planes into lodestar size by lengthening them to put on the heavier engines; that gives us greater carrying capacity, of course.

Mr. JACKMAN: What about the three Lockheed aircraft retired?

Mr. SYMINGTON: One was Armstrong; two, were the two that went to the War Services.

Mr. JACKMAN: And you haven't got those back yet?

Mr. SYMINGTON: We will never get those back.

The CHAIRMAN: Next item, please.

GENERAL

Special War Activities:

The company has undertaken on a considerable scale the repair and overhaul of military aircraft, including engines, propellers and instruments. Throughout the year the volume of work produced has shown a consistent increase. Women have displayed particular aptitude for certain types of work and an increasing number are being trained. The company's shops are on a three-shift basis and full use is being made of all facilities.

Maintenance and Overhaul of Aircraft Employed in Atlantic Return Ferry Service:

An agreement was entered into with the British Overseas Airways Corporation, under which Trans-Canada has undertaken the repair and overhaul of aircraft employed in the Atlantic Return Ferry Service operated by the Corporation. A maintenance staff, the nucleus of which was provided from the Winnipeg repair base, has been organized at Dorval. The company will shortly undertake the necessary servicing requirements in Newfoundland in connection with this service.

Service Extensions:

Recent negotiations have resulted in an arrangement for Trans-Canada to establish an air service to Newfoundland. It is anticipated a regular daily passenger, mail and express schedule will commence on May 1 next.

Because of this new service, and in view of the extent of the company's existing operations in the Maritime Provinces, a divisional headquarters and dispatch centre has been established at Moncton, with jurisdiction over operations east of Montreal, including Newfoundland.

Transportation difficulties and unseasonable weather combined to delay the completion of airports and other facilities on the airway being constructed by the Canadian Government for military and commercial aviation between Edmonton and Whitehorse, Yukon Territory. The airway will be completed and suitable for main line operation in the autumn of 1942 and Trans-Canada will then extend its services to that territory, thus providing a direct main line service from the United States and Canada to Alaska.

Outlook for 1942:

The outlook for 1942 contains many uncertainties. There is every indication of a further increase in traffic on the services now operated and of a substantial volume of traffic from the extension of services planned. Work on direct war contracts for the overhaul of military aircraft, engines, instruments and accessories will expand considerably and place additional burdens on the supervisory and skilled personnel of the company, but these will be accepted cheerfully. The company's equipment and plant have been well maintained and are in good condition.

On July 24, Mr. H. J. Symington, K.C., became President of the Company, succeeding Mr. S. J. Hungerford who resigned from that position and from the Board of Directors. Concurrently, Mr. R. C. Vaughan succeeded Mr. Hungerford as a Director.

The directors record with pleasure their appreciation of the loyal and capable services of the officers and employees of the company.

For the Directors,

H. J. SYMINGTON.

President.

The CHAIRMAN: Is there any discussion at this point?

Mr. SANDERSON: Where are these shops located?

Mr. SYMINGTON: The main shops are at Winnipeg—we have a shop at Malton, and at all our airports—but the main shops are at Winnipeg, Malton and Montreal. Some of the work done in these shops is on account of war service and the demands of this nature are growing very rapidly. I am informed that our costs are below that of anybody else giving a similar service.

Mr. DONNELLY: I believe it was stated that every 600 miles you give an engine a complete overhaul—how many man-hours does it take to give a complete overhaul to these engines?

Mr. SYMINGTON: It takes 450 man-hours.

The CHAIRMAN: If you would care to file a copy of that material.

Mr. SYMINGTON: I will.

Mr. MAYBANK: Where is that cost-plus that you referred to reflected in the income account; that \$303,000?

Mr. SYMINGTON: Mr. Cooper, could you answer that?

Mr. COOPER: That is on page 10, under the heading of gross revenue and incidental services.

Mr. MAYBANK: That \$303,964.44?

Mr. COOPER: That is it.

Mr. MAYBANK: Is that pretty well made up of these cost-plus jobs?

Mr. SYMINGTON: Yes.

Mr. MAYBANK: Or, does it come from some other place too?

Mr. SYMINGTON: No. That includes the overhaul of instruments including bomb-sights, camera guns, and all other instruments of British, Canadian and American manufacture for the R.C.A.F. It includes the overhauling and conditioning of metal propellers; the overhaul of engines to the account of the Canadian government and Ferry Command—we do overhaul of engines for Ferry Command before they go across the ocean if there is anything wrong with them. It includes B.O.A.C.—that is, the transport engines of the British Overseas Airways Corporation. It includes the overhaul of plane engines at Winnipeg for the R.C.A.F.; if there are crashes or injuries to planes; the overhaul of twin-engined aircraft for the R.C.A.F. at Malton, and the rebuilding of aircraft after accidents. Flight personnel—we do test work for others; that is, generally, with respect to overhaul, at both Vancouver and the Maritimes. It includes the servicing of R.C.A.F. aircraft moving out of T.C.A. stations; and all B.O.A.C. ground work at Montreal.

Mr. SHAW: Referring again to these shop operations, I notice it is operated on three eight hour shifts; is that throughout the whole week?

Mr. SYMINGTON: It operates throughout the whole week, but every employee is given one day off in seven.

Mr. HANSON: I would like to ask this question: you said that it is the intention of the air lines to extend the mail service to the new airports in 1942?

Mr. SYMINGTON: Regular mail service is taken over by Trans-Canada when a new service is established; and once they take over the mail is carried at whatever rate is then established.

Mr. HANSON: I understand there is a service at the present time from Edmonton to Whitehorse?

Mr. SYMINGTON: Yes.

Mr. HANSON: But that there is no mail service at the present time; will that be included later?

Mr. SYMINGTON: I do not know what the post office are going to do about that; that is their arrangement; but, of course, if Trans-Canada flies what we might call New York-Toronto-Winnipeg-Regina-Edmonton-Whitehorse-Alaska, mail will be carried throughout the route; but what arrangement would be made for the use of the branch lines—I presume they would stay the way they are.

Mr. HANSON: However, that is up to the Post Office Department?

Mr. SYMINGTON: Yes.

The CHAIRMAN: Next item, please.

BALANCE SHEET AT 31st DECEMBER, 1941

ASSETS		LIABILITIES	
<i>Current Assets:</i>		<i>Current Liabilities:</i>	
Cash.....	\$ 388,494 54	Accounts Payable.....	\$ 504,291 04
Working Fund Advances.....	3,495 71	Traffic Balances Payable.....	28,075 12
Special Deposits.....	10,062 53	Salaries and Wages.....	79,517 01
Accounts Receivable.....	874,153 43	Other Liabilities.....	32,280 75
Traffic Balances Receivable.....	253,374 88		
Balances Receivable from Agents.....	27,194 22		
Materials and Supplies.....	635,623 56		
Other Current Assets.....	67,819 48		
			\$ 644,163 92
			292,171 67
<i>Investment in Affiliated Companies.....</i>			
<i>Prepayments—Insurance.....</i>			
	\$2,260,218 35		
	2,250 00		
	33,178 64		
			3,750,000 00
<i>Capital Assets:</i>			
Property and Equipment.....	\$5,110,754 40		
Less Accrued Depreciation.....	1,878,365 86		
	3,232,388 54		
			841,699 94
			\$5,528,035 53

T. H. COOPER,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the Trans-Canada Air Lines for the year ended the 31st December, 1941, and we certify that, in our opinion the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the Air Lines as at the 31st December, 1941, and that the relative Income Account for the year ended the 31st December, 1941, is correctly stated.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

10th March, 1942.

Mr. DONNELLY: What about this \$2,250, "investment in affiliated companies"; what company is that?

Mr. ENGLISH: In connection with our service into New York there is an operating company which operates the airport terminal services there, and each operating company is required to take out so many shares of stock in that operating company.

Mr. NICHOLSON: This item of accounts receivable, appears very large; how do you account for that?

Mr. COOPER: I would say that since the turn of the year that item has all been paid in, with the exception of \$50,000. I can give you the details if you like. Most of it was due from the Post Office Department. Here are the details:

A/C 104 ACCOUNTS RECEIVABLE

Post Office Department.....	\$494,388 79
Department of Munitions and Supply.....	83,153 04
Department of Transport.....	61,352 37
Department of National Defence.....	53,437 88
Royal Air Force Ferry Command.....	42,154 31
British Overseas Airways.....	31,787 62
Province of Ontario.....	35,218 03
" Quebec	14,443 56
" Manitoba	11,095 64
" Alberta	7,762 68
" Saskatchewan	5,983 25
" British Columbia	2,622 52
Yukon Southern Air Transport.....	5,684 49
Northeast Air Lines.....	4,288 73
Miscellaneous	20,780 52
	<hr/>
	\$874,153 43

Mr. NICHOLSON: Then, how about this next item, traffic balances receivable; can you give us the detail as to that?

Mr. COOPER: Yes, that is made up as follows:

A/C TRAFFIC BALANCES RECEIVABLE:

American Airlines, Inc.....	\$79,582 49
United Air Lines.....	63,301 56
Department of National Defence.....	22,917 98
Canadian National Railways.....	21,143 21
Northwest Airlines, Inc.....	18,994 70
Canadian Colonial Airways.....	7,928 90
Transcontinental & Western Air, Inc.....	7,592 76
Eastern Air Lines.....	7,344 94
Canadian National Express.....	5,126 90
United States Federal Government.....	4,023 94
Western Canadian Greyhound.....	3,041 45
Miscellaneous—under \$3,000.....	12,376 05
	<hr/>
	\$253,374 88

Mr. NICHOLSON: Those accounts should be all right, I think.

The CHAIRMAN: We have the O.K. of the chartered accountant below the financial statement so I think we can now proceed to page 10.

INCOME ACCOUNT

YEAR ENDED 31ST DECEMBER, 1941

GROSS REVENUE:

Passenger	\$2,348,428 46
Mail	3,058,120 95
Express	78,811 56
Excess Baggage.....	18,341 12
Other Transportation.....	127 50
Incidental Services.....	303,964 44
	<hr/>
Total	\$5,807,794 03

INCOME ACCOUNT—*Con.*

YEAR ENDED 31ST DECEMBER, 1941

OPERATING EXPENSES:

Aircraft—		
Operation and Maintenance.....	\$3,011,315 13	
Depreciation	567,953 87	\$3,579,269 00
Ground Facilities—		
Operation and Maintenance.....	\$1,029,651 13	
Depreciation	140,571 12	1,170,222 25
Incidental Services.....		155,488 20
Traffic and General Administration.....		394,260 97
Tax Accruals.....		6,895 58
Exchange, etc.....		11,721 24
Interest on Capital Invested.....		187,500 00
Total		\$5,505,357 24
Surplus		\$ 302,436 79

STATISTICAL DATA

YEAR ENDED 31ST DECEMBER, 1941

Route Mileage Operated.....	4,024
Plane Miles Flown—Revenue.....	6,384,651
Plane Miles Flown—Non Revenue.....	890,164
Revenue Passengers Carried.....	85,154
Percentage of Passenger Occupancy.....	67
Average Passenger Journey—Miles.....	520
Air Mail Carried—Pounds.....	1,389,614
Express Carried—Pounds.....	173,192
Excess Baggage Carried—Pounds.....	112,924

Since the inception of operations the company has flown a total of 15,063,735 plane miles in revenue service and a total of 85,943,053 passenger miles.

Mr. JACKMAN: Number of plane miles flown—non-revenue, this bears quite a high relationship to the plane miles flown—revenue; is that all for training?

Mr. SYMINGTON: That is all for training; or, for example, when we start the Newfoundland service, which we expect to do on the 1st of May, for one month our pilots familiarize themselves with the ground fields, temperatures, and everything else relating to safe flying. That is non-revenue mileage. Also the training of pilots and refresher courses. Then, after a plane has been reconditioned it is flown quite a high number of miles by test pilots putting it through all sorts of things to see that it is in good shape.

Mr. DONNELLY: Do you think that your depreciation figures is high enough?

Mr. SYMINGTON: It has so proved over four years. I do not think we would be allowed by the government to write off any faster than that. Our engines are written down on the basis of service; that is, the engine itself—so many hours. We have had to boost that, they say we are taking too much depreciation. These things are adjusted in accordance with experience. I would say, sir, that our depreciation is adequate.

Mr. NICHOLSON: In connection with these plane miles flown—non-revenue; it seems to be a fairly high percentage—have you the percentages of the previous years available?

Mr. SYMINGTON: I can get that for you. It is roughly the same, Mr. Larson informs me. It varies naturally, once you open up a new route your revenue miles increase because you have got to familiarize your pilots with these routes. As long as the system extends there is bound to be a large percentage, relatively, of non-revenue miles.

Mr. NICHOLSON: I notice here incidental services, \$303,964.44; what are some of these incidental services?

Mr. SYMINGTON: I will ask Mr. Cooper to give you that?

Mr. COOPER: The incidental services are as follows:

511	Buffet and Restaurant Service.....	7,092	14
514	Commissions.....	751	75
515	Fuel and Oil—Sales.....	89,768	71
516	Repairs and Service—Sales.....	130,893	33
516A	Hangar Storage.....	8,098	96
517	Rents.....	6,278	26
518	Other Incidental Revenue.....	61,081	29
Total.....		\$5,807,794	03

The CHAIRMAN: I might say, gentlemen, that during the recess the doors will be locked so it will be quite safe for you to leave your papers here.

Mr. NICHOLSON: Are we through with the T.C.A.?

The CHAIRMAN: I think we have the auditor's report before we are entirely through with it.

Mr. SYMINGTON: There is no auditor's report, except the signature which you have on the financial statement.

The CHAIRMAN: All right. I do not know whether Mr. Matthews will refer to this again when presenting the report of the auditors. However, we will adjourn now to resume at 4 o'clock.

The committee adjourned at 1 o'clock p.m. to meet again at 4 o'clock p.m. this day.

AFTERNOON SESSION

The Committee resumed at 4 o'clock.

The CHAIRMAN: Gentlemen, when the committee rose at 1 o'clock we had just finished a review of the report of the Trans-Canada Air Lines. I presume the first order of business would be a motion for the adoption of this report.

Mr. McCULLOCH: I move that the report be adopted.

Mr. SANDERSON: I second that motion.

Mr. HANSON: Before the motion is put I would like to ask as a matter of courtesy for a breakdown of the item accounts receivable. Perhaps the officials would file that before the motion is put.

Mr. COOPER: That was put into the record this morning.

Motion agreed to.

The CHAIRMAN: Now, if it meet with the approval of the members of the committee the officials of the Canadian National transportation system would like us to consider the report of the National Steamships Limited. We will proceed with the report and Mr. Vaughan, the President of the Canadian National Railways, will read the President's Report.

Mr. R. C. VAUGHAN: (Reads):

The Honourable P. J. A. CARDIN, K.C., M.P.,
Minister of Transport,
Ottawa.

SIR,—On behalf of the directors, I beg to submit the annual report of Canadian National (West Indies) Steamships, Limited, for the year ended 31st December, 1941.

The comparative operating results are as follows:

	1941	1940	Increase	Per cent
Operating revenues.....	\$6,756,463 57	\$5,750,341 42	\$1,006,122 15	17.50
Operating expenses.....	5,029,106 60	4,545,306 51	483,800 09	10.64
Operating profits.....	\$1,727,356 97	\$1,205,034 91	\$ 522,322 06	

Details of operating revenues and operating expenses are given in the accounting statements accompanying this report.

The cash surplus for the year, i.e., the amount by which operating revenues exceeded operating expenses and bond interest, was \$1,205,656.97, which will be paid to the government as interest on advances (current and arrears). The corresponding figure in 1940 was \$666,101.57.

The *Lady Somers*, which was requisitioned for war service on October 3, 1940, was lost during the year as a result of enemy action while serving as an auxiliary cruiser. The *Lady Hawkins* (Commander H. O. Giffin, R.C.N.R.) also was lost as a result of enemy action while south-bound on January 19, 1942. The Directors very much regret the loss of these two fine ships. They also take this opportunity of expressing their sympathy with the relatives of the passengers, officers and crew of the *Lady Hawkins* who lost their lives in the tragedy. Pending settlement for the value of the *Lady Somers* the asset has been retained in the accounts at the original cost of the vessel, less depreciation accrued in the accounts to the date of requisitioning.

Two vessels, the *Dalwarnic* and *Canatco*, owned by the Canada Atlantic Transit Company, a subsidiary of Canadian National Railways, have been chartered for West Indies trade, replacing vessels of the company assigned for service to the Far East.

On July 24th, Mr. R. C. Vaughan became a Director and President of the company in succession to Mr. S. J. Hungerford who resigned from the said offices.

The Directors again express their appreciation of the loyal service rendered by the company's officers and employees under the stress of wartime conditions.

The CHAIRMAN: Any discussion?

Mr. HAZEN: Mr. Chairman, in connection with the loss of the *Lady Hawkins* on January 19, 1942, I wonder if Mr. Vaughan could tell us if that ship were armed before she sailed?

Mr. VAUGHAN: Yes, she was.

Mr. HAZEN: Could you tell us if Captain Giffin, the master of the ship, wrote the company complaining of lack of proper armament?

Mr. VAUGHAN: I could not say that. I did not hear of that, but in any event, those vessels sail entirely under the direction of officers of the navy and it is the navy which decides whether they should have a convoy or not.

Mr. HAZEN: If he did write such a letter would it come to your attention?

Mr. VAUGHAN: Well, it probably would. I have never seen such a letter. I have not heard that he wrote such a letter.

Mr. HAZEN: Is it possible such a letter would go to someone else?

Mr. VAUGHAN: It may be possible that such a letter was written.

Mr. HAZEN: If it was written and you did not receive it whom might it have been received by?

Mr. VAUGHAN: It would probably go to Mr. Teakle, General Manager of the Canadian National Steamships Limited, Montreal.

Mr. HAZEN: Is he here?

Mr. VAUGHAN: No, he is not here to-day. We can get him here if necessary. I think I can answer most questions, but I cannot answer that particular question because I have no knowledge of such a letter ever having been written.

Mr. HAZEN: You say it is possible such a letter could have been written?

Mr. VAUGHAN: I could not say that such a letter was not written because he may have written it. I can say this—I do not know how much of this would be desirable to go on the record because the navy have asked us to keep as secret as possible everything that happens in connection with the movements of these vessels—I do know that some of our captains have felt that they should have escorts.

Mr. HAZEN: I understood that Captain Giffin did write a letter. I do not know whether it should be tabled or put in the record, but I was told that such a letter had been written.

Mr. VAUGHAN: I can ascertain if such a letter was received and let you know in the morning.

Mr. HAZEN: I will appreciate it if you do that.

Mr. VAUGHAN: Yes, we will do that.

The CHAIRMAN: Any further discussion?

Mr. HANSON: What is the value of the *Lady Somers*?

Mr. COOPER: The original cost is \$1,779,000.

Mr. HANSON: You have depreciation?

Mr. COOPER: After deducting depreciation the ledger value would be \$1,167,000.

Mr. HANSON: That stands as an asset to the company?

Mr. COOPER: That is the value at which the asset is carried in the accounts; but I would not say it indicates the real value of the vessel.

Mr. HANSON: That is the value in the accounts.

Mr. VAUGHAN: The replacement value would be more.

Mr. HAZEN: Have you still some ships in the West Indian trade?

Mr. VAUGHAN: Yes, a number.

Mr. HAZEN: Are you satisfied with the armament on them at the present time?

Mr. VAUGHAN: That is difficult to say.

Mr. HAZEN: Has any convoy system been provided for ships?

Mr. VAUGHAN: I could not tell you that because our boats only move when they are released by the navy and they travel entirely under the direction of the navy. We do not know whether they are convoyed or not.

The CHAIRMAN: Will we proceed with page 6? Mr. Armstrong will read this.

Mr. ARMSTRONG:

CONSOLIDATED BALANCE SHEET AT 31ST DECEMBER, 1941

ASSETS

Investments:

Vessels	\$9,189,634 39
Plant and Equipment.....	8,273 78
Office Furniture and Fixtures.....	18,062 45

Current Assets:

Cash in Banks.....	\$1,821,492 31
Special Deposits.....	4,200 00

Accounts Receivable.....	\$1,825,692 31
Agents	385,671 39
Inventories of Stores and Supplies.....	564,858 99
Advances to Captains, Crews and Agents.	25,640 62
Amount due from Canadian National	33,866 54
Railways Joint Insurance Fund.....	187,159 62

SS. *Lady Somers*

Original Cost plus Improvements.....	\$1,779,694 67
Depreciation accrued to October 3, 1940.	611,976 94

Insurance Fund.....	1,167,717 73
Discount on Funded Debt.....	2,772,739 44
Discount on Capital Stock.....	40,744 43
	40,000 00

3,022,889 47

LIABILITIES

Capital Stock:

Authorized and issued 400 Shares of \$100 each..... \$ 40,000 00

Funded Debt:

25-Year 5% Dominion of Canada Guaranteed Gold Bonds
due in 1955..... 9,400,000 00

Dominion of Canada Account:

Notes Payable Secured by Mortgages on
Vessels \$ 933,071 83

Advances:

Capital	\$ 713,619 23
Working Capital.....	450,000 00
Deficits	5,059,960 94

Interest Accrued Unpaid..... 6,223,580 17

1,011,770 61

Current Liabilities:

Dominion of Canada.....	\$1,205,656 97
Accounts Payable.....	554,329 23
Interest Matured Unpaid.....	4,200 00
Unmatured Interest Accrued.....	156,666 67
Passage Money paid in Advance.....	130,639 88
Insured Loss Unpaid.....	43,278 34

2,094,771 09

Insurance Reserve..... 2,772,739 44

Unadjusted Credits..... 17,233 34

Uncompleted Voyages—Suspense..... 487,221 27

Accrued Depreciation..... 3,370,456 98

Profits and Loss—*Deficit*..... 10,090,783 04

\$16,260,061 69

CONTINGENT LIABILITY—No contingent reserve is
accrued for pensions. Pension payments are
charged currently to operating expenses.

T. H. COOPER,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the Canadian National (West Indies) Steamships, Limited and Subsidiary Companies for the year ended the 31st December, 1941, and subject to our report to Parliament, we certify that, in our opinion, the above Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the Steamships as at the 31st December, 1941, and that the relative Income and Profit and Loss Accounts for the year ended the 31st December, 1941, are correctly stated.

10th March, 1942.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

Mr. HAZEN: How many vessels does the company own?

Mr. VAUGHAN: They are all on the last sheet, on page 10.

Mr. SANDERSON: What was the deficit in the previous year, December, 1940?

Mr. VAUGHAN: The deficit after all charges was \$12,733.

Mr. SANDERSON: About \$2,000,000 less?

Mr. VAUGHAN: No, the actual surplus without amortization of discount, interest due government and depreciation on vessels is \$593,216.83, but the profit after taking into account interest on the bonds is \$1,205,656 against \$666,000 last year. That is on page 9.

The CHAIRMAN: If there is no further discussion shall we continue on page 8?

Mr. JACKMAN: The auditor's report shows that the *Lady Hawkins* was lost in January, 1942, and was insured in the insurance fund in the amount of \$1,500,000; what was the book value?

Mr. VAUGHAN: The book value is about the same as the other boat, \$1,100,000 or \$1,200,000.

Mr. COOPER: The *Lady Hawkins*, \$1,689,000; accrued depreciation to 1941, \$640,000.

Mr. ROSS: Have you any information with regard to uncompleted voyages. The breakdown includes uncompleted voyages at the end of the year. Could we have some more information on that?

Mr. COOPER: That is the accrued revenue and expense on voyages which are in progress at the end of the year. We only take into the income account the income and expenses on voyages which are actually completed—certain vessels are on voyage at the end of the year—and the revenues and expenses of those uncompleted voyages are carried in this account.

Mr. ROSS: That includes uncompleted voyages during the year?

Mr. COOPER: Yes.

Mr. JACKMAN: On the *Lady Hawkins* the original cost value is \$1,689,000, after the depreciation which shows on your book is \$640,000, leaving a net book value of \$1,049,000, and yet you had your own insurance fund for \$1,500,000 which I presume you collected from your insurance fund and paid into some other fund. How do you handle that?

Mr. VAUGHAN: There was a certain amount of that war risk which was insured outside. The *Lady Hawkins* was all in our own fund.

Mr. COOPER: It is our purpose to place the \$1,500,000 in a replacement account.

The CHAIRMAN: I am sure that the members of this committee do not hear what is going on. I am in the centre of the circle and I have difficulty myself.

Mr. COOPER: I understand that Mr. Jackman was enquiring what we propose to do with the \$1,500,000.

Mr. JACKMAN: I asked how you handle it in your account. You had an asset of \$1,049,000 and you get \$1,500,000 from yourselves. I want to know how you handle that. You are getting more back by reason of the sinking of the ship.

Mr. COOPER: I think Mr. Jackman is interested in the book profit.

Mr. JACKMAN: Yes.

Mr. COOPER: It is a capital gain. It will be taken up through the surplus account of the company.

Mr. HAZEN: You only get back \$1,049,000.

Mr. COOPER: We collected the insurance value \$1,500,000.

Mr. JACKMAN: From yourself, from the insurance fund?

Mr. COOPER: Yes.

Mr. JACKMAN: I have not had time to examine the account thoroughly to see if it in any way enters into the operating accounts.

Mr. COOPER: The *Lady Hawkins* was not lost until 1942. Its loss has no place whatever in the 1941 accounts. There is a reference to it, however, in the report of the directors as a matter of information only.

Mr. JACKMAN: On the *Lady Somers*, what is the contention with regard to the loss, or claim against the government?

Mr. VAUGHAN: We have made a claim for what we think is a fair valuation of the boat. What we are asking for is that we be settled with on the same basis as the Imperial government is settling with other steamship owners who have lost boats under the same conditions. If we can do that it ought to give us something in the neighbourhood of \$2,000,000.

Mr. ROSS: Was the *Lady Somers* requisitioned by the Canadian or British government?

Mr. VAUGHAN: By the Canadian government for the use of the Imperial government. She has been in the service of the British government, not in the service of the Canadian government.

Mr. JACKMAN: In the president's report he mentioned:—

The cash surplus for the year, *i.e.*, the amount by which operating revenues exceeded operating expenses and bond interest, was \$1,205,656.97, which will be paid to the government as interest on advances (current and arrears). The corresponding figure in 1940 was \$666,101.57.

How much of that will go to current interest and how much to arrears?

Mr. COOPER: That is shown on page 9, Mr. Jackman; the interest charged to income during the year 1941 was \$346,000—that is current interest. The remainder is arrears.

Mr. JACKMAN: You have paid about \$320,000 of arrears?

Mr. COOPER: We paid considerably more than that.

Mr. JACKMAN: Yes, I was looking at the 1940 book.

Mr. HANSON: What kind of freight is being brought up from there now, do you still bring bananas and things of that kind?

Mr. VAUGHAN: Substantial quantities of bananas from certain of the islands like Jamaica; molasses and the usual commodities produced in the West Indies.

The CHAIRMAN: Well, gentlemen, if we were to continue with page 8 and look at these figures we might get some of this information that is now being asked for in a general way.

Mr. JACKMAN: May I just put one question first: mention was made that you were carrying more war risk insurance; is that a change in policy since last year?

Mr. VAUGHAN: We have changed the policy to some extent since the hazard has become greater in that trade. I may say that they are under the British scheme of war risk insurance.

Mr. JACKMAN: And there is no concern because of any new type of risk either directly or indirectly connected with the war that the insurance reserve may not be adequate for the purposes of the company.

Mr. VAUGHAN: That was not the principal reason, although that was a factor; indeed, if we should lose this whole fleet we would not have enough money in the insurance reserve to replace them.

Mr. JACKMAN: The war risk insurance is the only thing that is a cause for concern and the occasion for placing the insurance outside of the company. This war risk insurance is the only type that you are placing outside?

Mr. VAUGHAN: We are still carrying the marine risk.

The CHAIRMAN: We will now proceed with page 8.

Mr. ARMSTRONG:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

At 31st DECEMBER, 1941

Balance at 31st December, 1940—Deficit.....	\$10,683,998 87
Surplus as per Income Account, year 1941.....	593,215 83
Balance at 31st December, 1941—Deficit.....	<u>\$10,090,783 04</u>

Mr. VAUGHAN: I perhaps should have said Mr. Jackman, that these boats are going all over the world to-day. We do not know where they are going to be sent to-morrow. Some of them were sent to the far east and in the rubber and other trades.

The CHAIRMAN: How did your deficit for the year 1941 compare with the year 1940?

Mr. VAUGHAN: There is no deficit this year.

The CHAIRMAN: I know; I mean for 1941 as compared with 1940.

Mr. VAUGHAN: We show a surplus after everything this year of \$593,000 against a deficit of \$12,000 last year.

The CHAIRMAN: That is an improvement.

Mr. JACKMAN: Might I ask how that surplus compares with budget surplus as reported to this committee last year?

Mr. VAUGHAN: It was, I think, greatly in excess of it.

Mr. ARMSTRONG: Last year's budget showed an income available towards payment of interest on advances by the Government of Canada of \$500,000; that corresponds to \$1,205,656. In the actual results for the year there is an improvement of about \$700,000.

Mr. JACKMAN: Over that budget?

Mr. ARMSTRONG: Yes.

The CHAIRMAN: Possibly that will be shown in the figures on page 9. I think we had better have page 9 read.

Mr. ARMSTRONG:

CONSOLIDATED INCOME ACCOUNT

	Year 1941	Year 1940
OPERATING REVENUE:		
Freight	\$5,358,734 12	\$4,854,623 81
Passenger	937,156 16	565,269 13
Baggage, Express and Miscellaneous.....	169,280 00	85,443 52
Subsidies	201,564 96	201,564 96
Charter	89,728 33	43,440 00
Total	<u>\$6,756,463 57</u>	<u>\$5,750,341 42</u>
OPERATING EXPENSES:		
Closed Voyages.....	\$4,891,699 67	\$4,422,651 63
Management and Office Salaries.....	101,093 93	88,974 81
Rent and Taxes.....	9,466 80	9,466 94
Office Supplies and Expenses.....	26,460 99	22,295 03
Advertising	3,807 57	3,579 00
Interest and Exchange.....	3,422 36	1,660 90
Total	<u>\$5,029,106 60</u>	<u>\$4,545,306 51</u>

<i>Operating Ratio</i>	<i>74.43%</i>	<i>79.04%</i>
Operating Profit.....	\$1,727,356 97	\$1,205,034 91
Interest on Bonds held by Public.....	470,000 00	470,000 00
Exchange on U.S. Funds.....	51,700 00	68,933 34
	<hr/> \$1,205,656 97	<hr/> \$ 666,101 57
OTHER CHARGES:		
Amortization of Discount.....	\$ 3,094 44	\$ 3,094 44
Interest due Government.....	346,701 38	346,661 24
Depreciation on Vessels.....	262,645 32	329,079 87
Surplus	<hr/> \$ 593,215 83	<hr/> \$ 12,733 98

Mr. HAZEN: Why is the depreciation down this year?

Mr. COOPER: Due to the fact the *Lady Somers* was lost, and depreciation discontinued.

Mr. HAZEN: The item, net operating revenue—passenger; does that include revenue received from carrying troops?

Mr. VAUGHAN: Yes, that would include all passenger revenue.

Mr. JACKMAN: Is a certain amount of tourist business being done at the present time?

Mr. VAUGHAN: There is very little tourist business in recent months. People are not taking ocean trips now unless they have to. We have been moving troops and people from the United States going to the islands of Trinidad and other naval bases.

Mr. HAZEN: I notice advertising is still rather high; what is the explanation of that when there are not so many tourists?

Mr. VAUGHAN: There may have been a carry-over there; I am not sure, but it is a very small amount. We are doing practically no advertising, except a little newspaper advertising so that people may know that the boats are sailing on or about certain dates.

Mr. HAZEN: I notice that management and office salaries are increased somewhat?

Mr. VAUGHAN: You are speaking about dollars and cents—that is largely because of the cost of living bonus.

Mr. HAZEN: Is that 15 per cent in this instance also?

Mr. VAUGHAN: No, it would hardly be that. It is not worked out on exactly the same basis. We have had to readjust our wages all around to meet certain scales being paid by other people, so we may have a different scale of wages for different trades.

Mr. JACKMAN: What has been the course of ocean freight rates?

Mr. VAUGHAN: It has been up, very substantially. Expenses have increased very materially on account of war risk, the cost of coal and oil, and other expenses.

Mr. HAZEN: The wages of the seamen have gone up?

Mr. COOPER: Yes, their wages are up.

Mr. HAZEN: Where are they in the statement?

Mr. COOPER: In the first item there under operating expenses—expenses of closed voyages.

Mr. HAZEN: About what percentage has the wages of the seamen increased?

Mr. COOPER: I think they were increased 25 per cent in 1939.

Mr. VAUGHAN: I think about 25 per cent. We had to give certain bonuses, and we have had to follow the British Maritime Wage Scale where our ships are serving in the same trade.

Mr. HAZEN: In connection with officers and men who lost their lives on the *Lady Hawkins*, or on any other vessel, is any provision made for them?

Mr. VAUGHAN: Yes, the provision is made by the Canadian government.

Mr. HAZEN: Not by your company?

Mr. VAUGHAN: No, sir.

Mr. JACKMAN: Is that a special wartime regulation?

Mr. VAUGHAN: Yes, they have regulations in connection with all vessels that engage in trade on the high seas.

Mr. JACKMAN: But they are no more applicable to your company than they are to all the rest?

Mr. VAUGHAN: Oh, no; we are treated exactly the same as any other steamship line.

The CHAIRMAN: We come now to page 10; I think that should be in the record.

Mr. ARMSTRONG:

FLEET AS AT 31st DECEMBER, 1941

	Gross tonnage	Deadweight tonnage
Lady Drake.....	7,985	6,370
Lady Hawkins.....	7,989	6,370
Lady Nelson.....	7,970	6,370
Lady Rodney.....	8,194	4,665
Cathcart.....	3,708	2,950
Cavelier.....	3,663	2,950
Chomedy.....	6,136	8,600
Colborne.....	6,230	8,650
Cornwallis.....	5,458	8,390
Connector.....	1,789	2,781
	59,122	58,096

ASSIGNMENT OF FLEET DURING YEAR 1941

SERVICES	Vessels
Eastern Passenger and Freight.....	3
Eastern Freight and Far East.....	3
Western Passenger and Freight.....	1
Western Freight.....	2
Charter.....	1
	10

VOYAGES COMPLETED DURING YEAR 1941

SERVICES	Voyages
Eastern Passenger and Freight.....	23
Eastern Freight.....	10
Western Passenger and Freight.....	12
Western Freight.....	24
Kingston—Belize.....	9
United Kingdom—West Indies.....	1
Far East.....	1
Charter.....	1
	81

Mr. HAZEN: Where do these vessels now sail to, take these ones on the western voyages?

Mr. VAUGHAN: The ships in the western service go to Bermuda and from Bermuda to Jamaica—that is what we call the western route.

Mr. HAZEN: What is the eastern?

Mr. VAUGHAN: What we call the eastern voyages here go down through the various islands, Nassau, St. Kitts, St. Lucia, Trinidad, Barbadoes and British Guiana.

The CHAIRMAN: If there is no further discussion a motion to adopt this report will be in order.

Annual Report of Canadian National Steamships Limited, adopted.

The CHAIRMAN: We now come to Canadian National Railways. Mr. Vaughan, will you proceed, please.

Mr. VAUGHAN:

CANADIAN NATIONAL RAILWAYS

MONTREAL, 10th March, 1942.

THE HONOURABLE P. J. A. CARDIN, K.C., M.P.,
Minister of Transport,
Ottawa.

Sir,

In conformity with *The Canadian National-Canadian Pacific Act, 1936*, the Board of Directors submit the following report of the operations of the Canadian National Railways for the calendar year 1941.

RESULT OF OPERATIONS

	1941	1940	Increase or Decrease
Operating revenues.....	\$304,376,778 12	\$247,527,224 81	\$56,849,553 31
Operating expenses.....	237,768,437 13	202,519,812 88	35,248,624 25
Net operating revenue...	\$ 66,608,340 99	\$ 45,007,411 93	\$21,600,929 06
Other income and profit and loss requirements..	12,247,025 13	11,532,968 88	714,056 25
Net available for interest	\$ 54,361,315 86	\$ 33,474,443 05	\$20,886,872 81
Interest on funded debt held by public.....	44,698,226 88	48,701,523 73	4,003,296 85
Interest on government loans.	5,646,762 24	1,737,963 50	3,908,798 74
Cash surplus.....	\$ 4,016,326 74	\$ 16,965,044 18	\$20,981,370 92

The CHAIRMAN: Is there any discussion here?

Mr. HANSON: That is the highest year we have had?

Mr. VAUGHAN: Yes, the best year we have had.

Mr. HANSON: Better than 1929?

Mr. JACKMAN: The interest on the funded debt held by the public is given here; the interest on government loans cannot be estimated.

Mr. JACKMAN: Vested securities. They have not turned them over to you yet?

Mr. VAUGHAN: No.

Mr. COOPER: They are held by the Minister of Finance as collateral for the loan made by the dominion.

Mr. McCULLOCH: I think it must be very gratifying to show a statement like that.

Mr. VAUGHAN: All our staff have done a very good job, and the result is a vindication of the policy of our management in keeping the road and equipment in reasonably good physical condition in the years of depression to meet an emergency of this kind.

Mr. HANSON: How does it compare with the highest peak year before?

Mr. VAUGHAN: I think the peak year before was 1928.

Mr. COOPER: Yes.

The CHAIRMAN: There was a surplus of \$15 millions that year, I think.

Mr. COOPER: In 1928 our net revenue was \$54,859,000. That compares with \$66,608,000 in 1941.

Mr. HANSON: What was the lowest year, 1932 or 1933?

Mr. COOPER: 1933 was the year in which the gross revenues were the lowest; they were down to \$148,000,000. In 1941 they were more than twice the gross revenue of 1933.

Mr. HANSON: What was the deficit that year?

Mr. COOPER: The operating net revenue was \$5,000,000. After interest the deficit was \$58,955,000. That compares with the figure of \$4,000,000 surplus in 1941. As regards final deficit, however, 1931 was the worst. In 1931 the deficit was \$60,900,000. That was the worst year from the point of view of total deficit. We are about \$65,000,000 better in the final result in 1941 as compared with 1931.

Mr. SANDERSON: Much better.

Mr. HAZEN: In how many years have you had a cash surplus?

Mr. COOPER: After paying interest?

Mr. HANSON: Yes.

Mr. COOPER: In 1926 we had a surplus of \$1,500,000. In 1928 we had a surplus of \$3,500,000.

The CHAIRMAN: After paying all charges?

Mr. LOCKHART: I should like to refer to the operating expenses in relation to the operating revenues. It costs \$35,000,000 more to obtain an increase of \$56,000,000. Does that seem to be satisfactory to the railway?

Mr. VAUGHAN: We think it is. That is mentioned, I think, at the top of page 5. We go into that in a little more detail.

The CHAIRMAN: I think perhaps you ought to mark these places and come back to them a little later on.

Mr. VAUGHAN: It shows that out of every additional dollar earned, we saved 49 cents.

Mr. JACKMAN: In regard to that operating ratio of 78·12 per cent, I notice the C.P.R. operating ratio for last year, before taxes, was 71·65 per cent. Are there any taxes that they include in figuring their ratio that you have to pay or are these simply corporation taxes?

Mr. VAUGHAN: I could not answer that. We come back to the old question of standardized accounting and we do not know just how they keep their accounts. I do not mean to say for one minute they do not keep them correctly; I am sure they do, but they are not entirely on the same basis as ours.

Mr. JACKMAN: How are members of the committee going to make a comparison with that which should be readily comparable?

Mr. VAUGHAN: Put the C.P.R. under your jurisdiction and bring them here.

Mr. JACKMAN: I think business men generally feel the operating ratio of the Canadian Pacific Railway is, according to their figures, which I believe are generally acceptable, somewhat better than that of the C.N.R.

Mr. VAUGHAN: They did not save as much of the additional earnings as we did.

Mr. JACKMAN: No; I realize that may be so, but theoretically to start with they could not be expected to save as much.

Mr. VAUGHAN: It is very difficult for us to answer in connection with the C.P.R.; we do not know. They have a lot of advantages that we have not. We operate much more unprofitable mileage in unsettled districts than they do and our traffic density is not as great as theirs, and in the final analysis our fixed charges are nearly double theirs.

Mr. JACKMAN: You do not include fixed charges in the final analysis—in the operating revenue, of course.

Mr. VAUGHAN: No.

Mr. HAZEN: You are carrying soldiers going on leave, I understand, at one-third of a cent a mile, or at the rate of one-third the regular rate.

Mr. VAUGHAN: I have not got the exact charge here, but there was a special arrangement made by both railways with the Department of National Defence under which on certain leaves, not all leaves, but certain leaves, I think, where it was two-thirds of the one-way fare or something of the kind. One-third was paid for by the government—

Mr. HAZEN: The government is paying some?

Mr. VAUGHAN: Yes. I think it is here. It says these fares were based on two-thirds of the normal one-way fare for the round trip, one-third of the one-way fare payable by the Department of National Defence and one-third payable by the holder of the warrant; the other third is the amount of reduction in fare assumed by the railway.

Mr. HAZEN: You are getting two-thirds of the regular rate. Are you making any profit on that?

Mr. VAUGHAN: On some we make a profit and on some we do not. By and large there is very little money in the passenger business.

Mr. HAZEN: Very little?

Mr. VAUGHAN: Very little money in the passenger business. It has always been a drain on the railway. We have usually shown a substantial loss on our passenger business.

The CHAIRMAN: That is to say, on all railways?

Mr. VAUGHAN: Yes, practically; on certain trains they make money, but if they have a widespread business like ours, by and large they will not make money on the passenger traffic.

Mr. LOCKHART: Are there many passenger trains run for the soliders? I know there are a lot of passenger trains taking troops going overseas and back, but I am speaking of the movement generally back and forth.

Mr. VAUGHAN: No, unless an arrangement is made with the Department of Transport. We frequently find that we need extra trains, because of the soldiers moving on leave in large numbers and we have to sometimes split the trains up into sections. That frequently has been done.

Mr. NICHOLSON: What policy is followed in splitting the business between the railways in competing points? What share are you getting?

Mr. VAUGHAN: I think that was up last year. We do not have any say as to the division of the business. That is under the control of the department. We are trying to get as much as we can.

Mr. NICHOLSON: I recall last year you were not getting your share, taking into consideration the mileage you have. I was wondering if there was any adjustment.

Mr. VAUGHAN: We still think we are not getting our share.

Mr. NICHOLSON: Have you any figures available that the committee may have?

Mr. VAUGHAN: No, we have no figures to show definitely the amount that is paid by the department for the movement of troops and other services to both railways.

Mr. HAZEN: Have you any figures available to show how you estimate your loss on carrying passengers?

Mr. VAUGHAN: That was done at one time; I do not think it has been done in the last few years.

Mr. COOPER: It was a theoretical estimate based on pro-rates and averages and the final result did not mean a thing, and we gave it up.

The CHAIRMAN: Neither the reporter nor myself nor these men down here can hear anything.

Mr. SANDERSON: May I ask this question, Mr. Chairman? Are you losing money on the traffic with the soldiers, carrying them here and there?

Mr. VAUGHAN: On troop trains I do not think we are losing money to-day; I do not believe we are making any money on them, but I do not think we are losing any. Where we get business in volume like that, with heavy trains and all coaches filled, they can be handled to much better advantage than otherwise.

Mr. HAZEN: Do you know for a fact you are losing money on your passenger service?

Mr. VAUGHAN: I could not say that to-day. That would be something that would require very close analysis. It is a very difficult thing, as Mr. Cooper has said, to divide your expenses as between passenger and freight rates—it is almost impossible to do it.

The CHAIRMAN: Is it not a notorious fact that passenger trains have always been looked upon as a kind of liability and loss to the railway?

Mr. VAUGHAN: Generally speaking, yes.

The CHAIRMAN: That has been my impression and information.

Mr. HAZEN: That would be prior to the war.

The CHAIRMAN: Since they have run passenger trains they have always run them at a loss.

Mr. NICHOLSON: Coming back to this question of the division of business. The president stated he did not think the C.N.R. was getting a fair share. How has the picture changed now as compared with a year ago, for example?

Mr. VAUGHAN: I would say about the same.

Mr. NICHOLSON: What seems to be the difficulty? This is a company that should be getting the break rather than the competing line getting the larger percentage. What seems to be the trouble?

Mr. VAUGHAN: These are difficult questions to answer. I think you will have to ask some one here in Ottawa.

Mr. NICHOLSON: It is not because you have not been trying to get it?

Mr. VAUGHAN: That is right.

Mr. HAZEN: Up to the present time have you experienced any increases in passenger traffic due to the restrictions on gasoline?

Mr. VAUGHAN: There has been some increase to that end, a certain increase to date, but there has hardly been sufficient time to judge what is the final result. We do expect to have to handle a lot of additional passenger traffic as the result of the gasoline rationing.

Mr. JACKMAN: I notice there has been a decrease in the requirement for interest on funded debt held by the public and there has been an increase in the interest payment to the government on loans for capital purposes. What rate do you pay the government for the advances that you get from them?

Mr. COOPER: We are paying $3\frac{1}{2}$ per cent.

Mr. JACKMAN: That would about equalize the average rate on the securities the government is holding.

Mr. COOPER: A fraction less than that, a fraction less than the average rate on the repatriated securities.

Mr. JACKMAN: A fraction less than the average rate on the repatriated securities?

Mr. COOPER: The decrease in interest on the funded debt paid to the public is mainly with respect to the Grand Trunk 4 per cent debenture stock. The interest charged by the Government is $3\frac{1}{2}$ per cent. The two things do not equalize exactly to the half of one per cent because of additional capital borrowing. If you turn to the top of the next page, Mr. Jackman, you will see we say "The primary reason for the decrease in interest paid to the public and the increase in interest paid to the government lies in the repatriation of the G.T.R. 4 per cent debenture stock—"

Mr. JACKMAN: What are you doing with your operating surplus; is that added to your working capital account?

Mr. VAUGHAN: We gave a cheque to the government for it.

Mr. JACKMAN: You have paid it under the statute, and did it come back as some evidence of indebtedness?

Mr. COOPER: That is 1942 business.

Mr. JACKMAN: In 1941 you had a cash surplus of \$4,000,000 odd.

Mr. COOPER: It was not paid until March of this year.

Mr. JACKMAN: But you paid that under the act. Does the government give you back one of your notes when you pay this back?

Mr. COOPER: I think they will.

Mr. VAUGHAN: That is what we are expecting.

Mr. LOCKHART: To what extent has the issuing of free passes increased since the beginning of the war? Have you any idea of that?

Mr. VAUGHAN: I do not think it has increased. We are watching the issuance of passes very carefully. As you know, during the holiday season of Christmas and New Year's we restricted the use of passes to emergency cases.

Mr. LOCKHART: Would you say there has not been an increase?

Mr. VAUGHAN: I do not think so.

Mr. SANDERSON: You bought some Victory bonds?

Mr. VAUGHAN: Yes.

Mr. SANDERSON: To what extent?

Mr. VAUGHAN: Out of one of the funds we had, out of the pension fund.

Mr. JACKMAN: Do you consider your working capital is quite ample for the present needs of the railroad?

Mr. VAUGHAN: We think it is. Of course, our working capital requirement has increased very materially on account of the increased pay-rolls and materials.

Mr. JACKMAN: You do not feel there is a surplus there?

Mr. VAUGHAN: No, I do not think so. It takes a lot of money to run a railroad the size of ours with all the material we have to buy and the pay-rolls we have to meet.

Mr. NICHOLSON: What are the possibilities of increasing the railroad stock to meet the demands that are likely to be made on it?

Mr. VAUGHAN: You will come to that later on. We have quite a substantial quantity of rolling stock on order, which is in the estimate.

The CHAIRMAN: Could we go ahead now, Mr. Vaughan, please?

Mr. VAUGHAN: (continuing) The financial result of the operations of the national railway system in 1941 was better than in any previous year. Net revenue, after the payment of all operating expenses, was \$66.6 millions, an increase of \$21.6 millions over the previous year. The cash surplus, after the payment of taxes, interest paid to the public and to the government, was \$4,016,000, an improvement of \$21 millions over 1940.

Operating Revenues

Operating revenues totalled \$304,376,000, an increase of \$56,849,000 or 23 per cent over the preceding year. The gross amount was approximately equal to that of 1928 and was more than double that of 1933. Only two other railway systems on the continent had larger gross revenues. The increase on system lines in Canada was 23·3 per cent and on system lines in the United States 21·3 per cent.

Freight revenue increased \$45,030,000 or 23·1 per cent. In 1941 the railway moved the largest tonnage of freight in its history. It moved the equivalent of 27,199 million tons one mile, an effort 20 per cent greater than in the previous peak year of 1928. The increased freight revenue over 1928, however, was only 5 per cent.

Passenger revenue increased \$10,191,000 or 47 per cent. Measured by passenger miles, passenger traffic increased 57 per cent, but the increase in revenue was not proportionate to the increase in volume because of the low fares for members of the armed forces and special rates for workmen's trains serving munition plants. The average revenue per passenger mile was 1·8 cents, an all-time low.

The increased activity in rail transportation was reflected in the other revenue accounts, such as switching, demurrage, mail, sleeping car, chair car, dining car, and commercial telegraphs. Express revenue, however, was less than in 1940 due to the diminution of certain movements of gold bullion which were unusually heavy in that year.

Mr. POULIOT: Now, Mr. Vaughan, I think there is something being done regarding the centralization of balance sheet departments, is there not?

Mr. VAUGHAN: Of what departments?

Mr. POULIOT: Something being done about the centralization of balance sheet departments?

Mr. VAUGHAN: Yes, there is; we are considering centralizing certain of our accounting departments.

Mr. POULIOT: And I have a list here for the central region. May I put it on the record as it is here or shall I read it?

Mr. VAUGHAN: Whichever you prefer.

Mr. POULIOT: It is a list of the prospective transfers from various places to Toronto, and I presume the same thing is contemplated in all regions.

Mr. VAUGHAN: That is right, sir.

Mr. POULIOT: What is the reason for that, Mr. President?

Mr. VAUGHAN: We think we will have increased efficiency and a very substantial saving in dollars and cents.

Mr. POULIOT: Is the present system not working well?

Mr. VAUGHAN: The present system is working all right, but we see an opportunity of saving several hundreds of thousands of dollars. Also we felt that at this particular time there would be less likelihood of disturbing or at least throwing men out of employment when they can get positions elsewhere. We will, of course, take care of all of our older employees, although some of them will have to move.

Mr. POULIOT: You have received representations from various public bodies like municipal councils?

Mr. VAUGHAN: Through some bodies we have received representations, yes.

Mr. POULIOT: Protesting against the scheme?

Mr. VAUGHAN: Yes. It has probably been worked up by our own employees who do not like moving away from the particular town in which they have lived for some time.

Mr. POULIOT: If this is done, will you maintain the general superintendents just the same?

Mr. VAUGHAN: Yes. There will be no disturbance in any of the operating officers or mechanical officers. It is purely accounting.

Mr. POULIOT: Will there be the same justification for their position if the accounting is not any more under them?

The CHAIRMAN: He means will it be condensed, I suppose.

Mr. VAUGHAN: There will be no change or disturbance in the operating positions; general superintendents and superintendents of regions and their officers will not be changed. The only officers that will be changed will be accounting officers.

Mr. POULIOT: Is that just prospective or is it decided finally?

Mr. VAUGHAN: We are working on it now and it is actively in hand.

Mr. POULIOT: That is to take place at the end of the calendar year?

Mr. VAUGHAN: Yes. In some regions the work will be done sooner than in others. I think the central region will probably be the last, because it is the largest.

Mr. POULIOT: I have a letter here. That letter is headed "System Adjustment Board, Canadian Brotherhood of Rly. Employees, Montreal, March 30, 1942; S.A.B. Circular No. 209, File SAB-C-151; to all Local Divisions, Canadian Brotherhood of Rly. Employees and Other Tr. Workers, Canadian National Railway." (Reads letter.)

The CHAIRMAN: I do not believe that letter should go into our records. I do not know that it makes any difference, but it means a lot of unnecessary printing. We can discuss it here if we desire to do so.

Mr. McCULLOCH: Most of the members received one of those letters.

The CHAIRMAN: I do not think it should go into this record. I do not think it has anything to do with it.

Mr. VAUGHAN: It is entirely a matter of efficiency and economy.

Mr. SANDERSON: Mr. President, if you follow that course, you will put a lot of men out of employment, will you not?

Mr. VAUGHAN: No; very few. I think Mr. Cooper can give you more detail on that.

Mr. COOPER: So far as getting down to details is concerned, we have only dealt so far with the western region. I might say that after a canvass of all the employees affected, those who will be transferred from the different division points to Winnipeg, almost without exception the employees have expressed a desire to be transferred. Only those who will not be required, those who are redundant, have any cause for dissatisfaction. But on the western region, these employees all have less than three years' service. We do not feel we have any great responsibility for people whose service is as short as that.

The CHAIRMAN: Less than three years?

Mr. COOPER: Less than three years. Everybody with more than three years' service will be taken care of, and will be taken care of in a way which they have agreed to and are satisfied with, and in many cases are very pleased to see it happen.

The CHAIRMAN: How large a percentage are going to be put out, would you say, Mr. Cooper?

Mr. COOPER: On the western region, out of 354 people, sixty-five will not be required.

Mr. SANDERSON: Will you please speak a little louder, Mr. Cooper? It is difficult to hear. It is not your fault; it is the fault of the room.

Mr. COOPER: I should like to mention in connection with this change it was decided we would give each district engineer an accounting clerk, and we chose the division assistant accountant to stay with the district engineer; but in every case except one they asked that they be permitted to remove to Winnipeg. The reason for that is a perfectly sound one. The opportunity for this staff in the Winnipeg office will be measurably better than it is in the district and divisional offices. At the present time the advancement which is open to these small staffs is very limited. They cannot go very far. By moving into the central accounting office at Winnipeg, they have the opportunity of going as far as, say, the regional auditor's position, which is quite a responsible position.

Mr. SANDERSON: What about the province of Ontario—London, for instance?

Mr. COOPER: After we have dealt with the western region, we intend to move to the central region. Centralization having been agreed to in principle, and having some regard to the practicability of making these changes, we have to do it in stages. We thought it would be advantageous to deal first with the western region, then with the central region, and then move to the Atlantic region, the thought being that complete centralization would be effected before the end of this year. I might say that, as far as I know, the Canadian National Railway is the only railway on the North American continent which has not centralized its accounting either on a regional or on a headquarters basis.

Mr. HANSON: Is the C.P.R. centralized?

Mr. COOPER: The C.P.R. is more or less centralized in two places: in Western Canada and in Montreal. They have what they call district accounting, which is a stage in between division accounting and regional accounting. Most of the large railways are at least on a regional basis and quite a number of them are on a centralized basis centred at headquarters.

Mr. POULIOT: Is that done in view of possible regulation of the railways in the near future?

Mr. COOPER: Not in any way, Mr. Pouliot, no. It is done essentially in the interests of efficiency. It is also due to the fact that under present conditions we are finding it very difficult to get the clerical staff we need to perform the work that has to be done. The work of the railway has increased tremendously, and members of our staff are enlisting. We are confronted with restrictions in the engagement of staff to replace them, and I think it is inevitable that steps of this sort should be made effective if the railway work is to be continued. We have to do more work, and we have to do it with less staff; and that is what centralization of accounting is intended to do. Incidentally, we expect to save some money.

Mr. NICHOLSON: At how many centres is this work now being carried on in the central region?

Mr. COOPER: We have Fort William, Port Arthur, Dauphin, Regina, Saskatoon, Prince Albert, Calgary, Prince Rupert, Vancouver and Winnipeg. In future all this accounting work will be done in Winnipeg. We feel too that this is a good time to do it. Any one who might be displaced at this time has all sorts of opportunities to go and find work. If we waited until things were slack, then you would be confronted with a personnel problem. We have thought of this plan, as a matter of fact, for several years. We have hesitated to do it because of the damage that would be done to the people whose positions would be abolished. This seems to us to be a very desirable time to introduce a centralization plan of this sort. The relatively few people who might be displaced, as I see it, will not have the slightest difficulty in leaving the railway service and finding other employment. But in every case the people displaced will have relatively very short service. I should like to repeat that those who are transferred to the centres will have considerably better prospects. The position of chief accounting officer of the Canadian National Railways will be

open to every one of these employees. Previously their horizon has been a very restricted one. The best they could hope to become would be chief clerk to a superintendent or something of that sort.

Mr. NICHOLSON: Will it be possible to transfer them without any reduction in salary?

Mr. COOPER: That is our intention. We do not intend to reduce salaries at this time.

Mr. McCULLOCH: You feel it is good business tactics?

Mr. COOPER: Yes.

The CHAIRMAN: Gentlemen, before going any further, we might consider the prospect of this committee sitting to-night.

Some Hon. MEMBERS: Oh, oh!

The CHAIRMAN: All right. I see it does not meet with the general wish. So then if you are not in favour of it, we will let it go. That is what I wanted to find out. Will you proceed, Mr. Vaughan?

Mr. VAUGHAN: Yes.

Operating Expenses.

Operating expenses totalled \$237,768,000, an increase of \$35,249,000 or 17·4 per cent over the preceding year. The wartime cost-of-living bonus granted to employees on lines in Canada from June 1st, 1941, cost the railway \$6,108,000, of which \$5,508,000 was charged to operating expenses—the remainder being charged to investment account, hotel operations and separately operated subsidiaries. Increased rates of pay granted to employees on the lines in the United States under the United States railway labour mediation agreement cost the railway \$769,000, of which \$701,000 was charged to operating expenses. Apart from these charges the increase in operating expenses brought about by the additional traffic was \$29,040,000, so that out of every additional dollar of revenue, operating expenses absorbed 51 cents, leaving 49 cents available for taxes and fixed charges. This is considered a satisfactory relationship between increased revenue and expense. The operating ratio was 78·12 per cent, the lowest on record.

The railway and its equipment have been maintained in satisfactory operating condition. System freight car serviceability throughout the year was the highest on record, the year's index registering 96·4 per cent. The ratio of locomotives in serviceable condition was 79·6 per cent, the highest for several years. The expenditures for maintenance of way and structures was \$1,708 per equated track mile, against \$1,456 in 1940, and was the highest since 1930. Some difficulty in obtaining materials for repairs and renewals was beginning to make itself felt towards the close of the year.

In view of the more intensive utilization of system equipment it was thought advisable to increase the provision for depreciation. The provision made in the 1941 accounts was \$13,591,000 against \$11,262,000 in the preceding year.

Since the outbreak of war, and apart from the acquisition of additional rolling stock, approximately \$10,000,000 has been expended on capital account for so-called war projects, involving the construction, extension or improvement of tracks, yards, spurs, sidings, shops and other railway facilities. It is recognized that the end of the war will terminate the usefulness of some portion of these facilities and that in such cases the capital expenditure involved, less salvage, should be amortized by charges to operating expenses within a reasonably short period of time in order that the net revenue account shall carry the full cost of securing the

traffic during the period of its existence. An amortization charge of \$500,000 has been included as a first instalment in the 1941 accounts.

Provision has also been made in the operating accounts for the retirement from service of the old passenger station facilities in the Montreal area which will be replaced by the new terminal.

The cost of protecting the company's property against possible sabotage was \$552,000 against \$476,000 in 1940. This expense is absorbed by the railway as an operating cost.

The number of employees increased by 6,705 to 89,536. It is significant that compared with 1928 the traffic volume in 1941 was greater but the number of employees was twenty thousand less.

Mr. NICHOLSON: In connection with the Montreal terminal, when is that going to be ready for use?

Mr. VAUGHAN: We expect it will be ready this fall, but as yet we cannot name the exact date.

Mr. JACKMAN: How much provision have you made in the operating account for the disposition of the old terminal property; are you showing anything in respect to that by way of write-off?

Mr. COOPER: \$1,000,000.

Mr. JACKMAN: What has been its book value?

Mr. COOPER: It might be a shade more. \$1,000,000 is the original cost, less whatever salvage there might be.

Mr. JACKMAN: You are writing the whole thing off then?

Mr. COOPER: Yes.

Mr. JACKMAN: The wartime cost-of-living bonus granted to employees on lines in Canada from June 1st, 1941, cost the railway \$6,108,000, of which \$5,508,000 was charged to operating expenses—the remainder being charged to investment account, hotel operations and separately operated subsidiaries; what has the cost-of-living bonus got to do with the investment account?

Mr. COOPER: Any of our employees who are working on work which is chargeable to investment account, their wages, of course, are charged to investment account. The cost-of-living bonus is simply an addition to the wage.

Mr. JACKMAN: Why do you include that? Is it not an expenditure, a capital investment—why do you include that as an addition to capital investment in operating expense.

Mr. COOPER: We do not.

Mr. JACKMAN: Under the heading of the paragraph, "Operating Expense"—would not that expenditure go direct to capital account and not into operating account?

Mr. COOPER: The sentence reads:—

The wartime cost-of-living bonus granted to employees on lines in Canada from June 1st, 1941, cost the railway \$6,108,000, of which \$5,508,000 was charged to operating expenses.

If we had stayed there someone would have said, where did the difference go to? We explain that the remainder of the cost went either to the hotels, or investment account, or to separately operated properties.

The CHAIRMAN: You were distributing it.

Mr. COOPER: Yes, according to the work on which the men were employed.

Mr. HAZEN: Where is this difference given in connection with United States increased costs?

Mr. COOPER: It will be the same thing. Out of the total of \$769,000, \$701,000 was charged to operating expenses. The remainder would be charged to investment account and to miscellaneous. We have no hotels on the Grand Trunk Western.

Mr. JACKMAN: I see here, expenditures, \$1,708 per equated track mile; what do you mean by an equated track mile?

Mr. ARMSTRONG: That refers to the way in which we arrive at an equation for measuring costs relating to main line, duplicate track, sidings and yard trackage. First there is the main track, each mile of which is counted as 1.0. Any second main track, that is, where there is a duplicate or a triplicate track, the additional track would be counted as 80 per cent of a mile, or .8. All the yard tracks and sidings are considered to be equivalent to one-half, or .5, of a main track mile. It is really an equated total used with respect to the maintenance of track mileage on the whole system. All these other tracks are equated to the equivalent of main line miles.

Mr. JACKMAN: It is a technical term anyway, I suppose.

Mr. Ross: I note particularly the last sentence in paragraph 2 under operating expenses: "Some difficulty in obtaining materials for repairs and renewals was beginning to make itself felt towards the close of the year"; what is the situation now?

Mr. VAUGHAN: The situation is that it is difficult to get anything in the steel line at all, whether it be rails, tracks, track fastenings, steel plates, steel sheets, it is a matter of obtaining priorities at Washington or Ottawa, and it is very difficult.

Mr. Ross: It has not affected the efficiency of the railway so far?

Mr. VAUGHAN: Not so far. I may say that we have a man in Washington and another at Ottawa following up our request and insisting on priorities all the time on these materials.

Mr. Ross: Now, if I might interject just a little human touch here; we have been listening to a bunch of figures so far, but I think the C.N.—and I would say the C.P.R. as well—have been doing a wonderful job since the war started in connection with the movement of troops and equipment and munitions of war, over this period of months with very little or no loss, but we have heard very little about it. The one great difficulty I find with both these roads is that they do not blow their own horns enough. People in general have a great interest in the railways. They feel that the railways are just as much a part of the army as any other branch of the service; and we know that they are working in the very closest cooperation with the active defence forces; both army, navy and air force. In connection with giving this road more publicity, with your permission, because it is fairly short, I would like to read to the committee a report of what has been done on the railways in the United States in connection with work of this kind. While it is possibly not directly relevant to the matter under discussion at the moment I am sure it would be of interest to the members if I were to read it.

(Article on American railroads war effort read off the record.)

I have looked quite often through the Canadian National Magazine for interesting things like that. I am sure the press of the country would be glad to seize upon interesting facts like that, and I am equally sure the whole of the people across Canada would be glad to have access to them. I am sure we have them in this country. I am perfectly satisfied that the public of Canada would enjoy from time to time little interesting stories like that telling of the great achievements of the Canadian National Railways.

Mr. VAUGHAN: I am sure you have not seen all our magazines.

Mr. Ross: I follow them pretty closely.

Mr. VAUGHAN: I am sure a number of our magazines have dealt with incidents like that very well. We have been in exactly the same position as the United States railways only two years longer.

Mr. ROSS: I am not talking about publicity. I should like human interest stories like that to reach the public.

Mr. VAUGHAN: We have Mr. Thompson here, the Director of Public Relations. He could probably talk to you about that.

Mr. THOMPSON: May I say a word on the subject? Railway men are constitutionally in the habit of going about their jobs, whether they are men working in the yards in ice and snow, in the shops or driving locomotives. They are by no means unlike our other citizens. We have felt since the beginning of the war, that we are doing a good job; indeed the very best job we can conceivably do. We have also realized, however, that there were tens of thousands of other men doing an equally good job in other industrial plants and in government service. We of the Canadian National Railways by reason of our history are inclined to a natural modesty of statement. However, I can assure you that the external publicity has an enormous effect upon our internal relations with our men. We are not unmindful of that fact.

I can tell you that within the last ten days there has been a national broadcast over the C.B.C., "The Voice of Victory program", in which our employees took part, describing what they had been doing on their war job. We have an illustrated feature which is running in the newspapers of the country, including papers here in Ottawa, describing our war work. Of course, up to certain limits we are using every vehicle of publicity that we know of to state what we are doing modestly—photos, news matter, the C.N.R. magazine.

I think perhaps the situation might also be referred to in this way: our President, Mr. Vaughan, has made two speeches on this very subject, one before the Vancouver Board of Trade and the other to the Canadian Club in Montreal, in which he covered almost a full page of newspaper space in the Montreal, Vancouver, and other papers through the country. I do plead guilty on behalf of our railway to the charge of modesty, founded on the reasons I have given to you.

The CHAIRMAN: Gentlemen, this statement that has been read by Mr. Ross is very interesting. It has to do with American railways. I doubt very much that it should go into the record of our committee here, particularly since there has been an order from the War Services Department asking us to curtail printing.

Mr. ROSS: It contains a lot of interesting information.

The CHAIRMAN: Yes, but it has to do with an American railroad and we are dealing with a Canadian railroad. It is not relevant to the work of this committee.

Mr. LOCKHART: We might put in a short paragraph, saying that it was discussed.

The CHAIRMAN: In drawing up our report we might say it had been read to the committee by Mr. Ross.

Mr. LOCKHART: And that the discussion took place on the service being rendered.

The CHAIRMAN: Yes. It could appear in the Minutes of Proceedings.

Mr. LOCKHART: But we should not go into the detail of printing it.

Mr. VAUGHAN: Mr. Walton, Vice-President of Operation, Construction and Maintenance, is here. He is immediately in charge of our troop movements. Perhaps you would like him to say a word on what we have been doing.

Mr. N. B. WALTON: It might be of interest to say that possibly some of what looks like lack of publicity is due to the desire on our part to carry out indications we have had from the authorities on the maintenance of secrecy in regard to

many of these movements. It is true that after the movement is all over possibly something could be said about it, as was done in this case; but we do feel that it is better probably to err on the side of safety in these various movements, and that applies to some considerable number of freight movements, munitions and so on, which have been moved on time schedules and which are almost equally important as the movement of men. So far as our employees are concerned, where men in some branches of the service, particularly not as fully informed as those right in the so-called running trades, we have made a practice in our meetings with representatives of men in the other departments to tell them very fully what is being done so that they will have an appreciation of what is being carried on by other branches of the service. We have not had anything, of course, approximating the concentrated volume of this movement, although with regard to our facilities we have had pressure from time to time, movements of men running up to 15,000 over a period of two or three days, and other movements of that kind. One figure that I have in mind as indicating the level on which business is running is that one of our largest roundhouse points, which is a station where power is maintained. A certain portion of the engines at least need repairs between trips. For the first three months of this year at this point I have in mind we turned out an engine every $11\frac{1}{2}$ minutes for the three months. That indicates the level of the business.

Mr. Ross: The committee does not get my point. I am not after factual information. I am trying to point out the human interest in the story. Mothers and fathers up and down the line would like to have information like this. They may have sons leaving western Canada and going to Halifax. These are the kind of people who would like to see items like this in the paper. The railroads are not telling the people the story.

Mr. SANDERSON: This happened in some other country.

Mr. Ross: We read about Pearl Harbour in our papers.

The CHAIRMAN: I should not like to offend anybody, but I do feel that your remarks, of course, are part of the proceedings of this committee like the remarks of Mr. Walton and Mr. Thompson. I have a definite responsibility and I do not believe the remarks that appear in a magazine concerning the railroads in other countries have any part in the report of this committee, and I feel that I must so rule. If the committee wishes to override my ruling, well and good. I do not wish to give any offence at all. I think we will have to rather converge.

Mr. McCULLOCH: I think we are losing a lot of time.

The CHAIRMAN: All right. That is my ruling, anyway.

Mr. Ross: I will consent to withdraw it. I suppose the proper place would be under the budget.

The CHAIRMAN: There is one thing we might as well take up now. Tomorrow is Friday, and it is a well known fact that a great many Quebec and Ontario members go home on Fridays. We should like to carry on the proceedings of this committee, but I am reminding you now that it is Friday tomorrow, and we should like to meet at eleven o'clock in the morning. What is your wish?

Some Hon. MEMBERS: Agreed.

Mr. McCULLOCH: There is another committee meeting.

Mr. LOCKHART: We have about five committees meeting at eleven now.

The CHAIRMAN: Well, we have bitten into this thing and we could get through with it in a short time. But if it is not expedient to meet to-morrow, we want to know now.

Mr. LOCKHART: Have you conferred with the other chairmen, as suggested, I believe, by the Prime Minister?

The CHAIRMAN: I do not think it was the Prime Minister. I think I heard Mr. Mackenzie say he was arranging something. Our clerk tells me that there is no other committee meeting to-morrow morning.

Mr. DONNELLY: Excuse me, but there is. We have a meeting, at eleven o'clock to-morrow morning, of the committee on Vocational Training.

Mr. HAZEN: The officers of the company are here, Mr. Chairman, and we do not want to bring them back unnecessarily.

The CHAIRMAN: Yes. I should like to see us make some headway. I understand the committee which is meeting to-morrow morning is for organization only, that they will meet for only a few minutes probably, elect a chairman and then disband. Shall we meet to-morrow at eleven o'clock?

Some Hon. MEMBERS: Agreed.

Mr. LOCKHART: We can try it one week, anyway.

The CHAIRMAN: Well, if it is in agreement with the wishes of the committee, we will meet to-morrow at eleven o'clock.

Mr. SANDERSON: The quorum is down to eight.

The CHAIRMAN: Yes.

Mr. SANDERSON: There will be eight here, surely.

The CHAIRMAN: Yes, I think so. All right, settled. Will you proceed, Mr. Vaughan, from wherever you left off?

Mr. HAZEN: If I am in order, may I ask what two railway systems on this continent had larger operating revenues than the C.N.R.?

Mr. VAUGHAN: The Pennsylvania Railroad and the New York Central Railroad.

Mr. JACKMAN: In the fourth paragraph on page five it says, that since the outbreak of war, approximately \$10,000,000 has been expended largely for so-called war projects.

Mr. VAUGHAN: Yes.

Mr. JACKMAN: And that there has been set up an amortization charge of \$500,000 against it. Does the government not give you any help where the work is specifically and largely for a war expenditure?

Mr. VAUGHAN: We have not asked the government for any help in that connection. On account of the large amount of war materials that have had to be handled, we have had to extend our sidings, put in new yards, signal systems and everything of that kind, which has come out of our own funds.

Mr. JACKMAN: But in an ordinary industrial plant, which has to expand solely for war purposes, the money is put up by the government or the depreciation rate is so high that the government pays for it in two or three years.

Mr. VAUGHAN: That is correct. We get no consideration in that connection.

Mr. JACKMAN: Do you consider it inequitable as far as the railway is concerned?

Mr. VAUGHAN: I think when the war is over—and we are keeping a record of these moneys that are being expended—we may have something to offset against them at the time.

Mr. DONNELLY: You do not know yet how much of this will be useless or how much of it will be useful?

Mr. VAUGHAN: No.

Mr. DONNELLY: You will have to wait until the war is over to find that out.

Mr. VAUGHAN: We have started to amortize this expense.

Mr. EMMERSON: Would an expenditure such as that in connection with the installation of an electrical control system or something of that sort come under that head?

Mr. VAUGHAN: Yes. That is almost entirely a war measure, to handle war traffic going to Halifax. But that appeared in our budget in the ordinary way, which you gentlemen saw last year.

Mr. JACKMAN: Suppose you build a spur into a war plant where war material exclusively is being manufactured. What happens in that connection?

Mr. VAUGHAN: Take for instance, Pickering, which is near Toronto. We would pay for the cost of the sidings on our own right-of-way. But as to the sidings that go into the plant off our right-of-way, the industry would pay for what we call perishable material and the industry would pay interest on the non-perishable material; that is, they pay for the perishable and pay interest on the non-perishable material.

Mr. JACKMAN: At any rate, you have no complaint that you think you should tell us about as to the treatment you have received. On the other hand, you are accumulating something which may be a good bargaining asset to you at the close of the war. Is that the way I understood it?

Mr. VAUGHAN: That is right. We have no complaint, but we are keeping careful record of these expenditures.

Mr. HAZEN: Did the company carry any bombardment insurance prior to December 31st last?

Mr. VAUGHAN: No.

The CHAIRMAN: It is so close to six o'clock now that it is hardly worth starting on the next section. Have you any more questions on this? If not, I think we will adjourn. What do you think?

Mr. DONNELLY: I move that we adjourn.

Mr. McCULLOCH: Finish the page.

The CHAIRMAN: We will not get through the page by six o'clock. Adjournment is in order if anybody moves that we adjourn.

Mr. HAZEN: There is just one matter I wish to mention, and that is in connection with the Canadian National Steamships Limited. I was referring to a letter written by the Master of the *Lady Hawkins*, and I understood the President to say he would make some inquiries about it and see if there were such a letter.

Mr. VAUGHAN: I will try to have that information for you in the morning.

The CHAIRMAN: All right. The committee is adjourned until to-morrow at eleven o'clock.

The committee adjourned at 5.50 p.m. to meet on Friday, May 1, at 11 a.m.

APPENDIX "A"
TRANS-CANADA AIR LINES
INCOME STATEMENT

OPERATING REVENUES		Aggregate to December 31st	
		1941	1940
<i>Transportation—</i>			
501	Passenger	\$2,348,428 46	\$1,574,217 33
502	Mail	3,058,120 95	2,832,363 20
503	Express and Freight.....	78,811 56	39,488 84
504	Excess Baggage.....	18,341 12	9,192 36
505	Other Air Services Revenue.....	127 50	27,744 63
<i>Incidental Services—</i>			
511	Buffet and Restaurant Service.....	7,092 14	6,210 59
514	Commissions	751 75	192 69
515	Fuel and Oil—Sales.....	89,768 71	59,241 53
516	Repairs and Service—Sales.....	130,893 33	28,655 18
516A	Hangar Storage.....	8,098 96	6,860 88
517	Rents	6,278 26	4,974 91
518	Other Incidental Revenue.....	61,081 29	3,241 25
Total		<u>\$5,807,794 03</u>	<u>\$4,592,383 39</u>

OPERATING EXPENSES			
Aircraft Operation, Mtce. and Depreciation.....	3,579,269 00		2,637,313 72
Ground Operation, Mtce. and Depreciation.....	1,170,222 25		794,645 49
Incidental Services.....	155,488 20		63,830 97
Traffic and General Administration.....	394,260 97		301,256 51
General Taxes.....	6,895 58		58,887 35
Total	\$5,306,136 00		\$3,855,934 04
Net operating profit.....	\$ 501,658 03		\$ 736,449 35

INCOME ACCOUNT			
Miscellaneous Income.....	1,581 62		393 88
Miscellaneous Income Charges.....	13,302 86		10,080 08
Interest on Capital Invested.....	187,500 00		187,500 00
Net income.....	\$ 302,436 79		\$ 539,263 15

STATISTICS			
Route Mileage Operated.....		4,024	3,662
Revenue Miles Flown.....		6,384,651	4,770,219
Non Revenue Miles Flown.....		890,164	488,765
Revenue Hours Flown.....		40,130	29,788
Non Revenue Hours Flown.....		5,081	2,764
Revenue Passengers Carried.....		85,154	53,180
Per cent of Passenger Occupancy.....		67	63
Average Passenger Journey (Miles)		520	551
Revenue Passenger Miles Flown.....		44,248,124	29,312,240
Air Mail Carried (Pounds).....		1,389,614	927,037
Ordinary Mail Carried (Pounds).....		88,705	
Express Carried (Pounds).....		173,192	105,788
Excess Baggage Carried (Pounds).....		112,924	50,559

TRANS-CANADA AIR LINES

OPERATING EXPENSES

		Aggregate to December 31	
		1941	1940
I Aircraft Opn. Mtce. and Depreciation—			
601	Flying Personnel.....	\$ 526,881 01	\$ 380,190 69
602	Flying Personnel Supplies and Expenses.....	86,196 13	71,322 38
603	Aircraft Engine Fuels.....	786,074 08	517,568 27
604	Aircraft Engine Oils.....	55,050 21	37,672 48
605	Passenger Supplies and Expenses.....	39,344 52	25,454 37
605A	Passenger Meals (Aircraft).....	127,644 54	49,836 44
607	Clearance Fees.....	5,817 45	2,953 23
608	Servicing—Labour and Supplies.....	407,023 80	253,544 84
611	Aircraft Repairs.....	200,392 80	118,589 51
612	Aircraft Propeller Repairs.....	19,656 01	13,610 90
613	Aircraft Instrument Repairs.....	43,891 67	19,075 35
614	Aircraft Engine Repairs.....	339,732 40	255,597 85
615	Aircraft Communication Equipmt. and Repairs.....	30,981 71	18,849 61
616	Misc. Flying Equipment—Repairs.....	20,703 51	19,333 50
617	Flying Equipment Insurance.....	196,158 38	166,598 86
618	Liability and Compensation Insurance.....	119,413 03	90,161 25
619	Injuries, Loss and Damage.....	5,270 08	260 25
620	Other Flying Expense.....	1,083 80	970 26
625	Aircraft—Depreciation	369,011 89	392,545 67
625A	Propellers and Hubs Depreciation.....	29,456 05	—
626	Aircraft Engines—Depreciation.....	131,314 82	168,959 55
627	Aircraft Communication Equipmt.—Dep'n.....	36,793 34	33,282 44
628	Misc. Flying Equipmt.—Depreciation.....	1,377 77	936 02
		<u>\$3,579,269 00</u>	<u>\$2,637,313 72</u>
II Ground Opn. Mtce. and Depreciation—			
631	Superintendence	\$ 139,435 41	\$ 105,092 86
632	Airport and Hangar Employees	214,575 10	125,064 91
633	Communication Operators.....	123,030 28	96,210 26
636	Travelling and Office Expenses.....	151,397 60	73,147 33
637	Light, Heat, Power and Water.....	45,812 96	40,883 45
638	Rent of Fields, Buildings and Offices.....	82,730 31	51,753 22
639	Rent and Expenses of Motor Vehicles.....	23,105 45	15,380 28
640	Rent of Other Equipment.....	—	20 00
641	Communication Equipment Repairs.....	44,355 06	40,496 38
643	Hangar Equipment Repairs, Suppls. and Exps.....	24,838 81	18,713 70
644	Shop Equipment Repairs.....	6,229 46	4,327 86
645	Motor Vehicles—Repairs.....	10,844 92	7,712 91
647	Furn., Fixt. and Office Equip. Repairs.....	2,934 02	2,209 28
648	Miscellaneous Ground Equipment Repairs.....	6,245 14	1,013 54
649	Bldgs. and Other Improvements—Repairs.....	13,820 08	12,795 43
650	Shop Exp. Indirect Labour and Materials.....	34,070 88	23,720 64
651	Stores Expense.....	30,376 87	16,623 48
652	Stores Expense—Inventory Adjustments.....	1,945 02	6,890 58
653	Bldgs. Mat'l. and Ground Equip.—Insurance.....	6,568 24	7,370 34
654	Ground Liability and Compensation Insce.....	18,074 96	14,682 11
655	Injuries, Loss and Damage.....	—	70 00
656	Other Ground Expenses.....	31,334 47	23,812 61
656A	Express Expenses.....	21,816 13	878 82
660	Depreciation on Ground Facilities.....	140,571 12	105,775 50
		<u>\$1,170,222 25</u>	<u>\$ 794,645 49</u>
III Incidental Services—			
671	Buffet and Restaurant Service.....	\$ 7,463 26	\$ 6,996 30
675	Fuel and Oil—Sales.....	71,233 73	45,725 62
676	Repairs and Services—Sales.....	76,791 21	11,109 05
		<u>\$ 155,488 20</u>	<u>\$ 63,830 97</u>

STANDING COMMITTEE

		Aggregate to December 31	
		1941	1940
IV	<i>Traffic and General Administration—</i>		
681	Salaries and Wages—Traffic.....	\$ 100,418 98	\$ 65,031 43
682	Travelling and Office Expenses—Traffic.....	53,342 74	32,921 27
683	Rent of Traffic Offices.....	19,325 00	11,455 00
684	Agency Commissions.....	21,074 66	16,691 03
685	Advertising	56,889 90	70,936 72
687	Other Traffic Expenses.....	11,655 27	4,496 77
691	Salaries and Wages—General.....	80,189 68	52,524 69
692	Travelling and Office Expenses—General.....	9,745 47	11,458 41
694	Adminis. Chgs. from Affil. Coys.....	36,466 68	30,438 10
696	Insurance	716 26	528 70
698	Other General and Adminis. Exps.....	4,436 33	4,774 39
		<u>\$ 394,260 97</u>	<u>\$ 301,256 51</u>
V	<i>General Taxes—</i>		
699	General Taxes.....	\$ 6,895 58	\$ 58,887 35
A/C 402—Total Operating Expenses.....		<u>\$5,306,136 00</u>	<u>\$3,855,934 04</u>

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Agenda Railways and Shipping
Standing Committee, 1942

SESSION 1942

HOUSE OF COMMONS

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(STANDING COMMITTEE

ON

(RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 2

FRIDAY, MAY 1, 1942

WITNESSES:

Mr. R. C. Vaughan, President, Canadian National Railway System.

Mr. N. B. Walton, Vice-President of Operations, Canadian National Railway System.

Mr. T. R. Cooper, Comptroller, Canadian National Railway System.

Mr. W. M. Armstrong, Assistant Chief of Research and Development, Canadian National Railway System.

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1942



MINUTES OF PROCEEDINGS

Room 277, Friday, May 1, 1942.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met this day at 11.00 o'clock a.m., Mr. J. P. Howden, Chairman, presided.

Members present: Messrs. Bercovitch, Donnelly, Dubuc, Emmerson, Ferland, Gray, Hanson (*Skeena*), Hazen, Howden, Jackman, Lockhart, McCulloch, Maybank, Nicholson, Pouliot, Sanderson, Shaw, Sissons.

In attendance: Mr. C. P. Edwards, Deputy Minister of Transport; Mr. G. W. Yates, Assistant Deputy Minister; Mr. F. M. Maclellan, Chief Treasury Officer; and Mr. J. A. Wilson, Director of Air Services. The following officers of the Canadian National Railway System: Mr. S. J. Hungerford, Chairman of the Board of Directors; Mr. R. C. Vaughan, President; Mr. N. B. Walton, Vice-President of Operations; Mr. W. M. Armstrong, Assistant Chief of Research and Development; Mr. T. H. Cooper, Comptroller; Mr. Walter S. Thompson, Director of Public Relations. Mr. O. A. Matthews represented George A. Touche & Co., Auditors.

The Chairman opened the proceedings and invited Mr. R. C. Vaughan to resume the reading of the Annual Report of the Canadian National Railway System for the year ended 31st December, 1941. The witness was assisted again by Messrs. Walton, Armstrong and Cooper.

As the Committee explored the report the following resolutions were adopted:—

On motion of Mr. Gray, it was, by a vote of 14 to 1:

Resolved,—That the Minister of Transport and Public Works, the Minister of National Defence, the Minister of Munitions and Supply, and the Postmaster General be called to appear before the Committee on Railways and Shipping in connection with the ratio of business between the Canadian National Railway System and the Canadian Pacific Railway System in the light of the recommendation made by this Committee last year.

On motion of Mr. Maybank, it was, by a vote of 14 to 1:

Resolved,—That the correspondence exchanged between the various ministers above mentioned and/or their department heads with the President and/or officials of the Canadian National Railways, in connection with the same subject be produced before the Committee.

In the course of the proceedings the Chairman enquired about the wishes of the members concerning future sittings.

Mr. McCulloch thereupon moved, seconded by Mr. Nicholson, that when the Committee adjourns at one o'clock p.m., it stand adjourned until four o'clock p.m. this day.

And the question being put on the said motion, it was carried affirmatively as follows: Yeas, 11; Nays, 2.

At 1 o'clock p.m., on motion of Mr. Donnelly, the Committee adjourned to meet again at 4 o'clock in the afternoon.

AFTERNOON SITTING

The Committee met again at 4 o'clock p.m., Mr. J. P. Howden, Chairman, presiding.

Members present: Messrs. Donnelly, Dubuc, Emmerson, Gray, Hanson (*Skeena*), Hazen, Howden, Jackman, Lockhart, McCulloch, Maybank, Nicholson, Ross (*Middlesex East*), Sanderson, Shaw, Sissons.

In attendance: The same persons whose names appear in the list of attendance at the morning sitting.

Mr. Vaughan was invited to resume the reading of the Annual Report. In replying to questions he was assisted again by Messrs. Walton, Armstrong and Cooper.

As Mr. Vaughan was reading that part of the Annual Report of the Canadian National Railway System dealing with the abandonment of lines in accordance with decisions of the Board of Transport Commissioners and with particular regard to 53.4 miles of track between Forth (near Red Deer) and Ullin, Alberta, Mr. Shaw moved:

That the members of the Board of Transport Commissioners who sat on the Board at the hearing of the case of the abandonment of 53.4 miles between Forth (near Red Deer) and Ullin, Alberta, and whose decision had been rendered in recent days, both assenting and dissenting members, be called to appear before the Committee on Railways and Shipping, in order to question them in connection with that decision.

Discussion followed. Some members expressed doubts as to the legality of this move. However, the Chairman reserved his decision on the matter until the next meeting and the said motion was allowed to stand.

Before adjournment the Chairman announced that he was instructing the Clerk to notify the various ministers in accordance with the resolutions adopted in the morning and he expressed the hope that the ministers would be heard sometime during the day, next Monday, at whichever time was convenient to the ministers.

At 6 o'clock p.m., on motion of Mr. Jackman, the Committee adjourned to meet again on Monday, May 4, 1942, at 11 o'clock a.m.

ANTOINE CHASSÉ,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 268,

May 1, 1942.

The Select Standing Committee on Railways and Shipping met at 11 o'clock. The Chairman, Mr. J. P. Howden, presided.

The CHAIRMAN: Order, gentlemen. We want to get over as much as we can. I will ask Mr. Vaughan, the President of the Canadian National Railway system, to resume the presentation of the annual report for 1941.

Mr. VAUGHAN: We now come to:

Other Income and Profit and Loss Requirements

The accounts in this group show an increased charge of \$714,000 over 1940.

Taxes (other than sales taxes added to the cost of material) amounted to \$7,836,000, an increase of \$797,000, of which \$478,000 is attributable to the Dominion unemployment insurance plan which became effective July 1, 1941. The debit per diem balance, for the use of freight cars in interchange traffic, increased \$1,250,000. The financial results of separately operated subsidiary companies improved to the extent of \$1,169,000. Hotel operating income improved by \$89,000 to \$591,000.

Mr. JACKMAN: Before we go on, Mr. Chairman, could we have a breakdown of the various hotels in the system the same as last year? I do not know whether it was incorporated in the record or not, but I remember it having been submitted.

Mr. VAUGHAN: We will be glad to furnish you that.

Mr. JACKMAN: Would you include a comparison with the preceding year?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: And, coming back to this operating expenses, the second paragraph; "the railway and its equipment have been maintained in satisfactory operating condition"; and, at the bottom of the paragraph, "some difficulty in obtaining material for repairs and renewals was beginning to make itself felt towards the close of the year".

Mr. VAUGHAN: Yes.

Mr. JACKMAN: I notice in the C.P.R. report that they set up \$3,500,000 for a special renewal reserve because they could not get the labour or materials which they would ordinarily do in peace time; and it was so stated in their report; did you put up any reserve at all?

Mr. VAUGHAN: No, we have no reserve of that kind that we have built up.

Mr. COOPER: Except the \$500,000 for amortization of war projects.

Mr. VAUGHAN: Yes, but that is in a different category, that \$500,000 for war projects. We did add something to our depreciation, as you will see from our report.

Mr. JACKMAN: You feel that you have been able to get the labour and materials necessary to do any repair work that you would ordinarily do, particularly in view of the tremendously increased volume of traffic that is going over the lines?

Mr. VAUGHAN: We have been able to get sufficient labour and materials up to the present time.

The CHAIRMAN: Mr. President, there is a small matter right here which I would like to mention, if I may. It is the matter of freight cars, your old out-worn freight cars. At one time the farmers of western Canada could procure those freight cars and use them to good advantage; but it has been the policy, I understand, with both roads for the last two or three years not to permit these cars to be sold. I think they used to be sold for a nominal amount of say \$25; and it was pointed out to me by the management in the west that the retail lumber firms thought it worked an unfairness on them when they were so disposed of. They said that these freight cars were being pulled down by the people who bought them and the lumber salvaged sold in competition with their product. And the farmers, many of whom are certainly not at all wealthy, and who were very greatly advantaged by the procuring of these cars, are shut out now. I have had a number of them appeal to me and I have endeavoured to obtain cars for them. No doubt this appears to be a very small matter to be brought before this committee at the moment, but it does seem to me that the railways might very well modify their policy just a little on this particularly during a time when lumber is very hard to obtain for any purpose.

Mr. LOCKHART: Before Mr. Vaughan replies, will he include in that a statement with respect to the sale of electric car bodies that are no longer in use.

Mr. VAUGHAN: In each case, we, of course, get the most we can for the second-hand material. We do not think we should give it away if we can get something for it; that is the policy we have been following, both in connection with these old freight cars about which Dr. Howden speaks, and in connection with the old electric cars, and everything of that kind. There is a market for nearly everything to-day and we feel that it is incumbent upon us to realize what we can for that material.

The CHAIRMAN: But the farmers would readily pay whatever reasonable fee is put on these cars if they were made available. At one time they could be got for \$25, and they were delighted to pay that for them. The situation to-day, as I understand it, is that these cars are sold and broken up and the lumber in them sold as second-hand lumber.

Mr. VAUGHAN: I have not heard of that complaint which you mention from the lumber companies at all; it is simply a case that we have been trying to get as much as we could for the salvage material from the cars.

The CHAIRMAN: That is what they told me at Winnipeg; that it was on account of the representations made by the lumber dealers.

Mr. WALTON: There are very few available at the present time; as a matter of fact, according to the last report we only had some 50 cars on the whole system which were at the destruction point. Practically everything has been cleaned up.

The CHAIRMAN: That is what they told me last year, but I saw these cars being pulled to pieces by second-hand junkers.

Mr. LOCKHART: There is a reference here to several hundreds of these cars. What was done with them; were they sold, or torn to pieces? I think the whole matter is one which should be very easily cleared up.

Mr. VAUGHAN: These cars are torn down by ourselves and demolished in our own scrap yards.

The CHAIRMAN: That would be all right, if they were; that would be fine.

Mr. VAUGHAN: That is what is done. We have scrap yards located at strategic points across the country and these old cars go into these yards and the

material that is usable is salvaged and is used over again by the railway; and that which is not usable is sold to the best advantage, for the highest price that we can get for it. As you probably know, under existing conditions the price of steel scrap is regulated by the Steel Controller at Ottawa.

Mr. LOCKHART: However that may be, there was a practice followed of selling old electric cars from the abandoned systems. I know of many cases where as much as \$50 was paid for these old cars. There are people these days who are desperate for houses and they would take one of these old cars, maybe add a little lean-to to it for a kitchen, and make a very comfortable home for themselves. What is your policy with respect to them? Are they scrapped, or are they available; and is there a price set upon them?

Mr. VAUGHAN: There is no definite price set for them. Each case is dealt with on its merits.

Mr. LOCKHART: The body of an old electric car or a box car could be offered at a stipulated price. A price could be set on it.

Mr. VAUGHAN: There is no definite price at all. There would be a price set in accordance with what we considered was the value to the company of the salvage material. It might vary every few months.

Mr. LOCKHART: But there could be a price set on it?

Mr. VAUGHAN: Yes.

The CHAIRMAN: I would not have mentioned it at all except for the fact that I have definitely seen wrecking jobbers wrecking C.N.R. cars with the idea of selling the lumber. I have definitely seen that with my own eyes; and I have definitely been given the reply by the management at Winnipeg that there was an understanding between the railway companies that these cars would not be sold to the public, because of representations made by retail lumber firms; and that the railways felt that if they wanted to have the patronage of these retail lumber or wholesale lumber firms they had to make certain concessions. As a matter of fact the retail or wholesale lumber firms will just ship their lumber by any means that will afford them the best advantage. If they can ship by transport trucks along the highway they will use them.

Mr. VAUGHAN: I have not heard of that, Dr Howden. We will be glad to look into it. I do know that these old cars have been sold by tender in many cases, and that may account for what you have seen.

The CHAIRMAN: Yes, I dare say.

Mr. HAZEN: Before you go on to the next paragraph if I may be permitted to I would like to ask Mr. Vaughan just one question: perhaps I should preface my remarks by saying that I am from Saint John, New Brunswick; and I have read in the local press there on two or three occasions in the past few weeks some criticism about the connections—if I might put it that way—of the trains that leave the C.N.R. station, that leave Saint John, in the morning. As I understand it, I am not very familiar with the situation, the C.N.R. train formerly arrived in Saint John at a quarter past eleven in the morning going east. That train used to pick up passengers from the C.N.R. train that arrived in Saint John I think about eleven o'clock, or perhaps a little after eleven. Recently the C.N.R. have moved its departure hour back to 11 o'clock and the result, as I understand it—and I may not have the facts quite right—the result is that the C.P.R. passengers arriving from the east arrive at the station and find the train gone, with the result that they have to wait over until 10 o'clock, or later, that night; or wait for the train next morning. I do not know whether or not that difficulty is one which has been brought to your attention.

Mr. VAUGHAN: That is a matter we have under consideration, Mr. Hazen, and I will ask Mr. Walton, our vice-president of operations, who has this particularly in hand, to tell you something about it.

Mr. WALTON: The situation at Saint John to which you refer is that we were, up until recently, connecting at Moncton with a train known as the "Scotian", which follows the "Ocean Limited". There are a lot of passengers from Saint John and intermediate points up to Moncton who are very desirous of making connections with the "Ocean Limited", rather than have to take the other train, through passengers who prefer naturally to make connection with the "Ocean Limited". Now, we made out our time table to provide just that connection. The Canadian Pacific changed the time of their train to an extent—I think it is based on the departure from Ottawa here at 4:10 instead of 3:30 in the afternoon as previously, which affects the time all the way down past Montreal and including the train through to Saint John. That, if anything, made the matter worse; but in view of the mail connection that is involved we have agreed until the 17th of this month to make connection with our 11 o'clock train on Sunday if their train is on time, involving a "hold" of about 20 minutes so as to connect with the Canadian Pacific. The Canadian Pacific as well as ourselves have the matter under consideration. As stated by you, sir, it looks as though we are not waiting for that connection; but the primary idea is that we are trying to take care of people on our own lines who have just as justifiable a desire to connect with what is the earlier of the two trains on the main line out of Moncton.

Mr. HAZEN: You realize that the situation is pretty inconvenient, particularly for those passengers who want to get on that C.N.R. train, to arrive there and find that there is no C.N.R. train to meet them.

Mr. WALTON: I have no desire to say what other people should do but an important point for consideration there I think is that if they would make a connection at Montreal West rather than at Windsor station they would have no difficulty in connecting with the train for Saint John; they could pick up the Ottawa connection and still be early enough to reach Saint John and connect with our train and let us do what we are trying to do for the people from Saint John, and on the Saint John-Moncton line, who want to make their connection at Moncton.

Mr. HANSON: The statement was made in the house last night by an hon. member that the C.N.R. was selling cars to the C.P.R.; or loaning them.

Mr. VAUGHAN: We have sold no cars to the C.P.R. at all.

Mr. HANSON: That statement was made in the house last night by one of the members.

Mr. VAUGHAN: It is not correct.

Mr. JACKMAN: I do not know whether it had to do with the selling of cars precisely; I sent out for *Hansard*; and the question was this; having regard to scrap steel not being available for a 24-hour day run for certain of the steel mills in the west; and then one of the members said, "Then let the hon. member ask this of the Canadian National; how many cars have the Canadian National given over to the Canadian Pacific?"

Mr. VAUGHAN: We have handed over no cars whatever to them, Mr. Jackman; there are both passenger and freight cars used in the regular interchange of business between the roads.

Mr. JACKMAN: As a matter of fact I notice in your report your per diem rentals of cars—I suppose from other systems—is up considerably this year. Apparently you are using more rented cars than you are sending out of your own; you are using a greater number than the rentals you receive would indicate?

Mr. WALTON: That represents the influx of cars from other roads to our lines?

Mr. JACKMAN: In other words, there is nothing at all to substantiate the statement?

Mr. VAUGHAN: Nothing at all.

Mr. HANSON: No, it is not a good statement to put on *Hansard*.

Mr. BERCOVITCH: I notice that your taxes amounted to \$7,836,000; could you let us have a breakdown of that item?

Mr. VAUGHAN: We could get it for you.

Mr. BERCOVITCH: You might let us have that.

Mr. VAUGHAN: We will be glad to furnish it.

Mr. JACKMAN: In regard to taxation; I suppose on your American lines you have to pay American taxes; and if you make a profit you have to pay income tax on it too?

Mr. VAUGHAN: That is right.

Mr. JACKMAN: Do you make any profit on any American lines?

Mr. VAUGHAN: Sometimes we do and at other times we do not.

Mr. JACKMAN: It is not quite as bad as the Sault line, then?

Mr. VAUGHAN: Not quite.

Mr. MAYBANK: Mr. Chairman, I do not know whether this is the appropriate time to ask Mr. Vaughan about a matter that came up last year. I find among some of the transportation employees, particularly in Winnipeg, a great deal of complaint that they are unemployed; a number of them have been unemployed for a long time, whereas your competitor is crying out for men, and indeed some of your men are working temporarily for the C.P.R. That is, they may have been on your seniority list for a long time and could not hold a job. After having been out of work for quite a long time they managed to get a job on the C.P.R. and they are on that seniority list too. The complaint arises apparently from the fact that you are not getting as much work as you should from different sources. Of course, there is only one source now that is the big work giver. That brings to my mind this: last year we spoke about government business going in certain proportions to the C.P.R. and the C.N.R. It would be my thought in between sessions of this committee the Canadian National Railways itself would take some steps to try to improve this position with reference to the government business. Have you taken any steps at all to improve your position?

Mr. VAUGHAN: We have.

Mr. MAYBANK: What have you done?

Mr. VAUGHAN: We have approached the various ministers concerned and have pointed out the resolution which was passed by this committee of last year and have asked that something be done.

Mr. MAYBANK: You did that verbally?

Mr. VAUGHAN: Verbally and in writing.

Mr. MAYBANK: Have you got the writings?

Mr. VAUGHAN: I have not got them here.

Mr. MAYBANK: They ought to be here. I would not want to ask you what was in the writings since we have a rule that the best evidence is the writings themselves.

Mr. VAUGHAN: I imagine the letters were marked private and confidential; I do not know.

Mr. MAYBANK: They could not be private and confidential, I suggest, Mr. Chairman. They could be private and confidential, but not from this committee. Private and confidential are a couple of words that may be appropriate where

it comes from a member to a minister, but not relating to government business. An agency of the government writing to the government, I suggest, Mr. Chairman, could not mark its writing in that way. They could be marked that way, but it would have no effect unless, of course, we can bring in that well known rule that we hear a great deal of these days, "Not in the public interest."

Mr. VAUGHAN: I will not dispute that with you. The only thing I can say, Mr. Maybank, is what we have done. We have done everything within our power to get what we think is a fair share of the business of the Dominion of Canada.

Mr. SANDERSON: Mr. President, the ministers that you interviewed, were they sympathetic?

Mr. VAUGHAN: Yes, I think, generally speaking, they were.

Mr. SANDERSON: I would expect they would be. However, your request did not get very far; is that right?

Mr. VAUGHAN: I do not think the resolution of this committee has been acted on yet.

Mr. MAYBANK: No, the resolution of this committee has not been acted on in the house. Who made the representation verbally that you are speaking about?

Mr. VAUGHAN: I made several representations myself.

Mr. MAYBANK: To whom?

Mr. VAUGHAN: Several cabinet ministers.

Mr. MAYBANK: Who were they?

Mr. VAUGHAN: Well—

Mr. MAYBANK: There is nothing secret about Canada's business, Mr. Vaughan. I desire to know.

Mr. VAUGHAN: I saw Colonel Ralston, I saw Mr. Howe, and I saw Mr. Cardin.

Mr. MAYBANK: Now, will you state what transpired between you and Mr. Ralston on this occasion?

Mr. VAUGHAN: You are putting me on the spot.

Mr. MAYBANK: Exactly, you are on the spot.

Mr. VAUGHAN: Colonel Ralston suggested that it be made a cabinet matter.

Mr. MAYBANK: Was it made a cabinet matter?

Mr. VAUGHAN: I could not say.

Mr. MAYBANK: You mean that he suggested that he would take it up with the cabinet?

Mr. VAUGHAN: No, he did not suggest that; he merely suggested that it should be made a cabinet matter.

Mr. MAYBANK: What exactly were the representations that you were making?

Mr. VAUGHAN: We feel we should receive not less than 65 per cent of the competitive business of the country.

Mr. NICHOLSON: As compared with how much? What percentage did you have last year?

Mr. VAUGHAN: We do not know. We believe that there are certain instructions in some departments, although we have never been able to obtain the information definitely, that the business be divided on a 50-50 basis. And we know that some of the officers of the various departments have that in the back of their minds.

Mr. MAYBANK: Why did you mention Colonel Ralston first? Is it just chance that you went to him first?

Mr. VAUGHAN: No, because his department, of course, controls the movement of troops.

Mr. MAYBANK: So when you were dealing with him it was because he was the shipper to a very large extent of one class of government business?

Mr. VAUGHAN: That is right.

Mr. MAYBANK: Do you know what percentage of business you got from that department?

Mr. VAUGHAN: No; we have no means of determining that.

Mr. MAYBANK: Did you represent to Mr. Ralston what you believed to be the case as to the division?

Mr. VAUGHAN: It has been represented to that department on different occasions that we felt we were entitled to a larger share of the movement of troops.

Mr. MAYBANK: In your talk with Mr. Ralston did you represent to him what your beliefs were at that time as to the way the work was divided in his department?

Mr. VAUGHAN: I do not recall at the moment exactly what my conversation with Colonel Ralston was. As I said before he was, I think, sympathetic, but he felt it was a large matter and one that should be dealt with by the cabinet.

Mr. MAYBANK: Did you ever have another interview with him after that on the same subject?

Mr. VAUGHAN: No, I did not.

Mr. MAYBANK: Then there was nothing with Colonel Ralston after that in that regard?

Mr. VAUGHAN: No, except our officers are in touch all the time with the various officers of his department and I think there has been some improvement in the share of business we are getting.

Mr. MAYBANK: To what extent has there been an improvement in that department?

Mr. VAUGHAN: I can answer that by saying our passenger business generally is increasing very substantially.

Mr. MAYBANK: From that department?

Mr. VAUGHAN: From that department.

Mr. MAYBANK: Do you know whether it is increasing with relation to the total amount of traffic that department has?

Mr. VAUGHAN: I could not say that because we have no figures showing the amount of money which the Department of National Defence paid to the two railways.

Mr. MAYBANK: Do you know whether that kind of traffic emanating from that department has increased both on your western lines and on your eastern lines or just one of them?

Mr. VAUGHAN: I think it has increased to a greater extent on our eastern than on our western lines.

Mr. GRAY: Before Mr. Maybank goes on into some other branch may I say we frequently have postal officers here to give us information with respect to the postal business and the carriage of mail. Is there any reason why we should not have officials from the Department of National Defence brought here to give us information along the same lines with regard to their department?

The CHAIRMAN: If you make the requisition in a motion and have it passed by the committee we can get them here.

Mr. GRAY: If the Canadian National Railways find themselves handicapped and feel they are not being justly dealt with in the face of the recommendation passed by this committee last year, I certainly would feel that the best way to find out is to have the officials here and let us settle this thing once and for all.

The CHAIRMAN: Might it not be well to have Mr. Maybank ask the president first of all if the cabinet dealt with the matter?

Mr. MAYBANK: I am going to follow that. You said a moment ago you had the impression—correct me if I am wrong in this—you stated you had the impression that there were certain men in the department who believed that the division should be the way it has been in the past and that as a consequence of these men having such a belief you could not get what you want. I am quoting your statement correctly, am I not, Mr. Vaughan?

Mr. VAUGHAN: I believe some of the men in the various departments are of the opinion it is the wish of the government to divide their business equally between the two railways.

Mr. MAYBANK: Now, are some of the men that you have been describing in the Department of National Defence?

Mr. VAUGHAN: Yes, I think that is true.

Mr. MAYBANK: These are the men to whom you have to go to get traffic, is that right?

Mr. VAUGHAN: That is right. Generally speaking, I believe our traffic officials feel that the officers in the Department of National Defence are treating us fairly in the division of their business so far as their understanding of the wishes of the government are concerned.

Mr. MAYBANK: Your men would hardly get that idea just drawing it out of the air, Mr. Vaughan. How did they ever get that idea with reference to these men in the Department of National Defence?

Mr. VAUGHAN: I suppose that information must have been given to some of our officers by certain officers of the Department of National Defence; but I really would prefer that you talk with Mr. Fraser, our Traffic Vice-President, on this traffic matter.

Mr. MAYBANK: Is the person who would know here?

Mr. VAUGHAN: No, he is not here; but of course our traffic men are in daily contact with the officers of the Department of National Defence. I do not think they have any complaint against—I think they have no direct complaint against the officers of the Department of National Defence.

Mr. MAYBANK: Is it fair to say they appear to be bound by some understanding or convention?

Mr. VAUGHAN: I think that is a fair statement.

Mr. MAYBANK: Well, now, who are the persons in the Department of National Defence to whom your traffic officers have to go to get a share of the traffic?

Mr. VAUGHAN: I could not say offhand the various officers of the department with whom our traffic men are in contact from day to day.

Mr. MAYBANK: Can we get that information as to who are those persons who have what I believe is, or what ought to be, a misconception; who are they? We want to know who these people are in each department. Mr. Fraser, I have no doubt will say, but how can we get that information so we will know whom to subpoena here?

Mr. VAUGHAN: It seems to me, if I may say so, that if this committee could get the information from the Department of National Defence as to what their ideas are of dividing business, it would probably accomplish what you have in mind.

Mr. MAYBANK: I fancy it would or it might, but this other way would too, or it might. I just happen to have chosen this other method.

Mr. EMMERSON: May I ask Mr. Vaughan who is the Movement Control officer for the Department of National Defence?

Mr. VAUGHAN: I do not know offhand who the particular officers are, but our traffic officers are in touch with them. We have traffic officers up here constantly. We have some located here permanently and others come up constantly, and are almost in daily touch with the Department of National Defence, with various officers of the Department of National Defence, and I think they have a satisfactory relationship with the officers. I think if you brought the officers here it would be putting them on the spot the same as you are putting us on the spot. I think there is only one way that the matter could be settled, and that is by an expression from the head of the Department of National Defence as to what instructions, if any, have been issued in respect to the division of this business.

Mr. MAYBANK: I will come back to that, Mr. Vaughan. But, digressing from that for just a moment, I want to ask this question. You did not write to Mr. Ralston after the conversation you have described?

Mr. VAUGHAN: I do not remember whether I did or not, Mr. Maybank.

Mr. MAYBANK: Could that be looked up, to see whether you did or not—of course, on this point. Could that be looked up?

Mr. VAUGHAN: That could be looked up.

Mr. MAYBANK: You mentioned awhile ago that there had been representations in writing. To whom?

Mr. VAUGHAN: The Minister of Transport.

Mr. MAYBANK: To anybody else?

Mr. VAUGHAN: I think we had it up with Mr. Howe as well. I am sure we did.

Mr. MAYBANK: In writing?

Mr. VAUGHAN: Yes.

Mr. MAYBANK: Mr. Chairman, I should like to ask that that correspondence be brought here. If there are any objections to that, we might try to settle them now. I realize that Mr. Vaughan feels that they would be private and confidential, but that is the very point with which I do not agree.

Mr. DONNELLY: Mr. Vaughan, you said you wanted 65 per cent of the business, as I understood you?

Mr. VAUGHAN: At least that percentage of the competitive business.

Mr. DONNELLY: On what did you base your figures?

Mr. VAUGHAN: What we really asked Mr. Donnelly, was that, if there were any instructions issued to any departments in regard to dividing that business on a fifty-fifty basis, they be withdrawn. We preferred to have no instructions at all rather than instructions of that kind issued, because we felt we would rather take our chance on getting our share of the business if such instructions were withdrawn. I do not know that such instructions are out, but it is the opinion of our traffic people that there are such instructions in existence.

Mr. GRAY: Mr. Vaughan, that is my very reason for suggesting that it be cleared up in the various departments through which the railroads are doing business. Personally I think you can go out and compete very well with your competitors, but I myself would not be at all surprised if such instructions were

in existence, because we have run into that before. I remember not so many years ago when a certain branch of one of the departments of this government instructed their employees to stay at the Lord Nelson hotel at Halifax. Those instructions were given to the various employees. I want to give that as an instance. I think, now that we have got this far, the heads or ministers of the departments should make a statement to the committee. I know if Mr. Howe were here, he would quite willingly make a statement with respect to the Department of Munitions and Supply, and Mr. Cardin would do the same with respect to Transport. I think we should have the heads of these departments, or the ministers, make a statement to the committee with respect to such orders, if they do exist; and I would so move, Mr. Chairman.

Mr. DONNELLY: Mr. Chairman, I would move that the Chairman, Mr. Maybank and Mr. Gray be a committee of three—

Mr. JACKMAN: I would object to that.

The CHAIRMAN: What is that?

Mr. JACKMAN: One must take exception to that, because they represent one party.

Mr. GRAY: Put Mr. Jackman on in my place, if you like.

Mr. DONNELLY: I move that there be a committee of three to interview the Minister of National Defence and other ministers, to see what people we should call or whom we should call before the committee, and that they be called.

The CHAIRMAN: Gentlemen, I have two rather indefinite motions. I have one from Mr. Gray that the heads of three departments of government be asked to appear at this committee to give information.

Mr. DONNELLY: Which they may know nothing about.

Mr. HANSON: They could be here—

The CHAIRMAN: Just a minute.

Mr. HANSON: I second that motion of Mr. Gray, Mr. Chairman, because I think if this committee is going to function at all—

The CHAIRMAN: I am sorry to interrupt, but I could not hear that.

Mr. HANSON: I say that I second the motion of Mr. Gray, because I feel that if this committee is going to be of any use at all, they should know whether the government has refused to accept the recommendation that this committee made last year, and on what grounds; and if instructions have been issued contrary to that recommendation, they should know it.

The CHAIRMAN: Have you any proof that the government did refuse to accept the recommendation?

Mr. HANSON: We have the statement of the President that the recommendation which this committee made last year for increased business based on mileage, employees and fixed charges, has not been acted on.

The CHAIRMAN: You must remember that by the time that recommendation got to the committee it was pretty badly disfigured.

Mr. MAYBANK: You made reference to a couple of indefinite motions, Mr. Chairman.

The CHAIRMAN: I did not get a chance to finish with it. I was interrupted while I was still talking.

Mr. MAYBANK: I am sorry.

The CHAIRMAN: I think I outlined the motion of Mr. Gray correctly. He did not get a seconder, although probably he easily could have done so.

Mr. HANSON: I did second it.

The CHAIRMAN: Well, his motion precedes Dr. Donnelly's motion, and will have to be voted on by the committee.

Mr. HAZEN: What is his motion again?

The CHAIRMAN: His motion is that the heads of the three mentioned departments of government, namely, transport, national defence and munitions and supply, be requested to appear at this committee to give testimony with regard to this matter.

Mr. BERCOVITCH: Is it necessary to have a motion to that effect?

The CHAIRMAN: But we have the motion.

Mr. BERCOVITCH: Yes.

The CHAIRMAN: I do not think the motion is out of order and I am going to put it as a matter of expedition.

Mr. BERCOVITCH: If we have the gentlemen here of their own accord, it would serve the same purpose. These gentlemen might appear of their own accord and they could tell us in a few words whether they had any parleys or whether there was any discussion about that at all.

The CHAIRMAN: The motion is merely requesting them to appear.

Mr. GRAY: I am trying to bring it to a head, Mr. Chairman.

Mr. MAYBANK: I am not speaking in opposition to either of these motions, whether definite, indefinite, out of order or otherwise. But I hope you will not lose sight of the fact that there is a motion preceding them both, which is that the correspondence to which I have referred should be tabled here.

The CHAIRMAN: I do not think it was in the way of a motion. I think it was a request and it is so recorded. It is recorded as a request.

Mr. MAYBANK: Well, I can, of course, come back to it in a few minutes. I want to make absolutely certain that it will be observed.

The CHAIRMAN: Do you wish to make a motion?

Mr. MAYBANK: Of course, I suppose, if it is not recorded as a motion I will have to wait until you get this other debris out of the road. But I want to make it perfectly clear to all and sundry that I am coming back to it.

The CHAIRMAN: We have track of it here. All in favour of the motion before the committee please signify.

Mr. LOCKHART: Before the motion is put, would Mr. Vaughan suggest that there might be any head of any other department who might be included who could bring full information?

Mr. VAUGHAN: Well, the principal departments concerned, so far as the railway traffic is concerned, are the Departments of Munitions and Supply, National Defence and the Post Office Department.

Mr. LOCKHART: The latter has not been mentioned so far. I would move in amendment that the Post Office Department be added to the others.

Mr. GRAY: In order to save time, I will include that in the motion.

The CHAIRMAN: And public works while you are at it.

Mr. GRAY: All right, sir.

The CHAIRMAN: Now you have got it fairly complete. All in favour of this motion kindly signify. Against? I declare the motion is carried.

Motion agreed to. Yeas, 14; Nays, 1.

Mr. JACKMAN: Mr. Chairman, it cannot be overlooked that the report of this committee did not receive the confirmation of the House last year. I do not know whether that makes any difference to the instructions on which the government should act. However, I should like to address a question to Mr. Vaughan and it is this. Does he agree with his vice-president, Mr. Fraser, who last year stated he could see no reason why the government, inasmuch as it owned this railway, should not give 100 per cent of the traffic which arises from government business to the C.N.R.?

Mr. VAUGHAN: My opinion is that the C.P.R. is entitled to some of the traffic of these departments.

Mr. DONNELLY: Do you think it should be divided on the basis of the main line mileage?

Mr. VAUGHAN: There are several factors which have to be taken into account in connection with the division of this business. We have much more mileage to maintain in outlying districts, and these lines are unprofitable to operate. We have nearly twice the fixed charges of the Canadian Pacific Railway. The Dominion Government has a tremendous investment in the Canadian National Railways. Before these railroads were brought together in 1918 the C.P.R. had many competitors, such as the Canadian Northern, the Intercolonial and the Grand Trunk. They had several competitors. Now they only have one competitor. If all those competitors were still in existence, they could hardly expect fifty per cent of the business.

Mr. McCULLOCH: Under what department does the C.N. Telegraphs come?

Mr. VAUGHAN: We have several telegraph departments under Mr. Galloway—commercial telegraphs.

Mr. McCULLOCH: Do you not think they they should be added on to that motion, because there is where a lot of the trouble starts. Telegrams are going out through the country—

The CHAIRMAN: There is no department of telegraphs in the government.

Mr. McCULLOCH: There are telegrams going out from departments in Ottawa that are going out by C.P.R.

Mr. VAUGHAN: That would have to be included, I think, in whatever questions might be asked of the various departments, because both railways have got telegraph systems, express systems and railway systems.

Mr. MAYBANK: Mr. Chairman, as I said a little while ago, I want to make completely certain with reference to that correspondence. I see that it is noted as a request. I should now like to know at this stage whether it will be necessary to make that motion. I would, therefore, like to know whether there is any objection to that request. Will the papers be tabled?

The CHAIRMAN: Well, Mr. Maybank, probably to make sure of your ground you had better make a motion. We have the request here and we cannot tell whether the papers will be tabled on a request or not.

Mr. MAYBANK: Very well. I so move.

Mr. VAUGHAN: I know that these letters have been marked private and confidential. Whether you could get them here, I do not know.

The CHAIRMAN: Will you state your motion, Mr. Maybank?

Mr. MAYBANK: Yes. I move that all correspondence between the C.N.R. management and ministers and officials of the government relating to this matter we are now discussing shall be brought down by the management of the C.N.R. and tabled in this committee.

Mr. GRAY: I will second that.

Mr. BERCOVITCH: Mr. Chairman, surely we have power to send for correspondence.

The CHAIRMAN: What is that?

Mr. BERCOVITCH: We have power to-day to ask for correspondence of all kinds. I do not think a motion is necessary at all.

Mr. GRAY: I do not, either, Mr. Bercovitch; but the Chairman suggested it.

The CHAIRMAN: No. We had a request, but the man who made the request preferred a motion, and we have the motion. Now I have the motion

and I am going to put the motion to the committee. You have heard the motion of Mr. Maybank and Mr. Gray. I ask all those in favour to raise their right hands, 14. Those against, 1. I declare the motion is carried. Now what about doing a little more work?

Mr. LOCKHART: Is that work?

Mr. MAYBANK: Just a minute. I want a record of all these other interviews just exactly the same as the Ralston interview. Even though we are going to request these ministers to come and make a statement, I nevertheless want to know what has been done. I spoke to Mr. Vaughan about the Department of Defence. Before leaving that, I do want to know the people in the Department of Defence who appear to have the belief that they cannot divide traffic otherwise than fifty-fifty. You said, Mr. Vaughan, I think, that you could not yourself answer that question?

Mr. VAUGHAN: That is right.

Mr. MAYBANK: But that Mr. Fraser or some person from his department could. When could we get that?

Mr. VAUGHAN: I think they could answer that. I am sure they could answer it, Mr. Maybank, but it might put them in a rather embarrassing position.

Mr. MAYBANK: They might answer it—some person like yourself—and you might give the answer; your shoulders being so much broader.

Mr. VAUGHAN: We would not like to create the impression that we have any complaint against the officers of the Department of National Defence.

Mr. MAYBANK: I quite understand that, and I think we have made that very clear that it is not a position of complaining about some of these officers with whom you deal. By the very question asked we realize the position you are in and you are not complaining about these officers. I still want to know who are the people from whom the traffic business had to be got in the Department of National Defence.

Mr. VAUGHAN: That could be obtained. I still think that an expression of opinion from the heads of the departments as to how they have divided the business and what their policy is in regard to the division would answer the purpose.

Mr. MAYBANK: All right. In deference to your opinion we can at least let the matter rest for a little while and if it turns out to be necessary we can come back to it.

Now, then, would you tell what representations were made to any other department? I would like to get the story with relation to the Transport Department.

Mr. VAUGHAN: Our officers are making representations daily to nearly every department of the government in their ordinary contact in the solicitation of business.

Mr. MAYBANK: Perhaps I did not make my point clear. I was not referring to your officers, but I was referring to the representations made by the railway similar to those which you yourself made to Mr. Ralston. What transpired between yourself or any other official of the railway and the Transport Department all along the line?

Mr. VAUGHAN: I know that our executive officers and our freight traffic officers and passenger traffic officers, telegraph and express officers are constantly soliciting business from all the departments of the government and urging that we be given a larger share of business.

Mr. MAYBANK: Apparently I am not making myself clear. I am not getting the answer to the real point. I did not deal with the solicitation of

business bit by bit but I was dealing with representations which may have been made by you and I understand were made by you to the Minister of Transport. Did you have any dealings with him on that question?

Mr. VAUGHAN: Yes, I have had.

Mr. MAYBANK: Were those similar to what transpired between you and Mr. Ralston?

Mr. VAUGHAN: Yes.

Mr. MAYBANK: Were any representations then made by you in writing?

Mr. VAUGHAN: Representations have been made by me in writing, yes.

Mr. MAYBANK: And can you give me an idea when?

Mr. VAUGHAN: At various times, some recently.

Mr. MAYBANK: I am really dealing chiefly with representations in writing since the time of the last Railways and Shipping Committee. Have there been representations made in writing in that period?

Mr. VAUGHAN: Oh, yes.

Mr. MAYBANK: Do you have any recollection of how much correspondence there was?

Mr. VAUGHAN: There has not been a great deal of correspondence because when we communicate once or twice with cabinet ministers we do not like to keep on pestering them.

Mr. MAYBANK: That would be included in the motion. Did you have conversations with them on this?

Mr. VAUGHAN: Yes.

Mr. MAYBANK: What did you represent in your conversations; what did you say?

Mr. VAUGHAN: The replies I got were that the matter would be taken up at an appropriate time.

Mr. MAYBANK: With whom?

Mr. VAUGHAN: I presume with the cabinet.

Mr. MAYBANK: Substantially the same answer as to Mr. Ralston?

Mr. VAUGHAN: Yes.

Mr. MAYBANK: Did you make any representations to any other cabinet ministers?

Mr. VAUGHAN: No, I have not.

Mr. MAYBANK: Just the two—just Mr. Ralston and the Minister of Transport?

Mr. VAUGHAN: And Mr. Cardin.

Mr. MAYBANK: The three of them?

Mr. VAUGHAN: Mr. Howe, Mr. Cardin, and Col. Ralston.

Mr. MAYBANK: Would the correspondence which you have just been describing, the last one on the record, be the conversation with Mr. Howe and Mr. Cardin?

Mr. VAUGHAN: The last communication I had on the subject was with the Minister of Transport.

Mr. MAYBANK: But the conversation which you have last been describing in answer to my question, which was the last one told about on the record here to-day, was that conversation with Mr. Howe or Mr. Cardin?

Mr. VAUGHAN: I do not recall, Mr. Maybank; I have had many conversations with so many people on this business that I do not recall them.

The CHAIRMAN: Mr. Howe was Minister of Transport for a while.

Mr. MAYBANK: Yes, I know. I want to make the point clear. Would it be fair to say that the conversations you have described with Mr. Ralston could likewise be taken as a report of your dealings with Mr. Cardin, substantially?

Mr. VAUGHAN: Substantially, yes. All the cabinet ministers I have spoken to have been sympathetic, and I believe have intended to take the matter up at an appropriate time. What they have done I do not know.

Mr. MAYBANK: Would you say then it is substantially also the report of what transpired between you and Mr. Howe—the same thing?

Mr. VAUGHAN: Yes.

The CHAIRMAN: Is there any further discussion; if not let us proceed.

Mr. JACKMAN: Before the subject is closed, I would like to ask the president whether or not the C.N.R. is in a position to handle more traffic at the present time. If we are to believe the publicity which appears in the newspapers, and particularly that issued from the Department of National War Services, the tendency is to discourage traffic which is not directly war traffic at the present time because the demands for moving troops and people on war business and war trade are so great that the various railroad lines in the country are all booked to capacity; so I rather fail to understand just what the contention is about at the present time. Would the president say whether or not his railway in particular is in a position to handle a substantially increased volume of traffic in 1942?

Mr. VAUGHAN: I believe that both railways can still handle more traffic—both railways are still actively soliciting traffic, both freight and passenger from the public and from the government. We have not come to the point yet where we have to decline any traffic, nor has there been any congestion in the movement of traffic. Traffic solicitation is still a very active subject on the part of both railways.

Mr. MAYBANK: What is the number of men, say, in the running trades in western Canada you have out of work at the present time?

Mr. VAUGHAN: I could not answer that, Mr. Maybank; I do not know whether Mr. Walton could.

Mr. WALTON: We had some men on western lines who were loaned to the Atlantic region during the past winter as the business fluctuated on different parts of the line. That is something that has gone on in various years and it took place again this winter. As to just how many men are actually out of work—out of work is not altogether the term—we have quite a number of men who are really seasonal employees. When they were hired it was never thought they could secure day in and day out work. You are familiar with the way in which these men are handled, I think; they start in on what is called the extra list and gravitate to regular work as the years go by. Now, there are quite a number of those spare men on the western lines and very few on the Atlantic region where the reverse was the case and men were borrowed from the western lines to fill up the requirements this past winter on the Atlantic region. It is a variable proposition.

Mr. MAYBANK: You heard what I said about men who are C.N.R. employees but who were not able to work on account of not having enough seniority going over to the C.P.R. and working there. Did you know that was so?

Mr. WALTON: I understood there were some. There has been a heavier movement of grain on the Canadian Pacific in the last few months due to the location of the crop this year. I see no objection in cases of that kind to some of our men working for the Canadian Pacific Railway or vice versa if the conditions were reversed. That is a reservoir of men—and I think it is very good business—that either road can call on them.

Mr. MAYBANK: I would not have you or anybody understand I was complaining about your men working for the C.P.R.

Mr. WALTON: No, I did not think you were.

Mr. MAYBANK: If you have a very considerable number of men unemployed and the other road has its full complement of work and is crying out for more, at first glance it would appear it is doing better than you are. That is the real situation at first glance.

Mr. WALTON: One thing you need to look at to be sure your premise is correct is the number of spare men which three years ago or at the outset of the war the two railroads had. I do not know whether we might have had a larger spare list to draw from than they had. You would need to know that to be sure.

Mr. MAYBANK: It is in order to get an explanation of that situation that I have raised the question. Did you have a larger reservoir proportionately than the C.P.R.?

Mr. WALTON: I do not know—I do not know what their position was. I do know we had quite a sizeable list of spare men; how it would compare with the other road I do not know.

Mr. MAYBANK: The men who spoke with me—and there were a large number of delegations—were men who had been on your list quite a long time and they were working with the C.P.R. men who were railroaders with about the same length of service. I questioned them for the very reason I have now mentioned.

Mr. NICHOLSON: How many passenger trains are running daily from Winnipeg on the C.N.R. and C.P.R. east?

Mr. VAUGHAN: We are running the two regular trains—numbers one, two, three and four. We are, of course, running extra trains from time to time.

Mr. NICHOLSON: Take during the last winter, have you any idea of the number of extra trains run as compared with the total number run on the C.P.R.?

Mr. WALTON: There are occasionally cases where additional sections are run; but east from Winnipeg that is not much of a factor on passenger trains. The two regular trains per day take care of most of the movement on the Canadian National.

Mr. NICHOLSON: How many are there on the C.P.R.?

Mr. WALTON: The regular service is three—two in the evening and one in the morning; we have no morning train out of Winnipeg east that compares with their morning train.

Mr. NICHOLSON: I remember the Confederation train which you ran at one time; would you have equipment to put on a similar service now?

Mr. WALTON: Yes, if it were needed; but we have the two trains—they are spread differently as to hours of the day—we have the two trains now and we had the two trains at the time you spoke of the confederation train. It is only a difference in the time of the day.

Mr. NICHOLSON: At that time there was a fast train through Regina?

Mr. WALTON: Yes, now it goes direct through Saskatoon.

Mr. NICHOLSON: It gave a better service through Regina.

Mr. WALTON: Brandon and Regina; east of Winnipeg the same number of trains are running now as when that service was on.

Mr. NICHOLSON: They both leave at the same time, do they not?

Mr. WALTON: They leave close together; one is a Toronto train and the other is a Montreal train.

Mr. NICHOLSON: Would the equipment be available to take a train out of Winnipeg in the morning, instead of the evening one?

Mr. WALTON: It would take the same amount of equipment as now if we ran it at a different time.

Mr. JACKMAN: Inasmuch as the railways can handle, perhaps, some more traffic, if there was a diversion of traffic, artificial or otherwise, from the C.P.R. to the C.N.R., I presume in the opinion of Mr. Walton that would result in the laying off of certain C.P.R. employees?

Mr. WALTON: I presume if they lost business that came to us there would be less work for the men over there, unless traffic from other sources increased enough to take up that slack.

Mr. JACKMAN: Traffic from other sources? You would have as good a chance to get that as any other railway?

Mr. WALTON: Yes.

The CHAIRMAN: Mr. President, it may be a rather ill advised question, I am afraid, but rumour has it in our part of the country, and you hear it very often that you could cut down the time of your eastern train to Winnipeg and Ottawa by a number of hours, but the schedule has to be maintained out of consideration for the C.P.R. Since there seems to be a general investigation into these matters I suppose you might as well answer that question now.

Mr. VAUGHAN: The departure and arrival of certain trains is agreed upon with the Canadian Pacific Railway. Both railways could shorten up their times if they eliminated stops. However, I think the time between Toronto and Montreal, and between Vancouver and Montreal and Toronto; and, of course, from Winnipeg to Toronto and Montreal, is fairly satisfactory to-day to all concerned; and I do not think in these times it would be wise to start shortening up the times of any of the trains.

Mr. MAYBANK: Could you shorten up the time of your trains without any increase in cost of operation?

Mr. VAUGHAN: We could, somewhat. It must be remembered that in the wintertime our trains have to run through very difficult territory, the same as the C.P.R.; we meet sometimes 60 below zero weather at Hornpayne, White River and Schreiber. At the present time, as you know, we have a satisfactory schedule. It is just 36 hours from Montreal to Winnipeg, two nights and one day; which is a good schedule.

Mr. JACKMAN: Does the same principle apply in rail transportation as in automotive transportation; that the faster you go the greater fuel consumption, that it increases geometrically, shall we say?

Mr. VAUGHAN: Not to the same extent. It is a different kind of power.

Mr. McCULLOCH: Is there any point at which the time on the C.P.R. is the same as the time on the C.N.R.?

Mr. VAUGHAN: Between Montreal and Winnipeg, and Montreal and Vancouver, it is the same—within a few minutes, practically the same.

Mr. WALTON: There is one other feature in connection with these main line trains and that is that we arrive now at convenient hours. The eastern train arrives at Ottawa at 6:20 in the morning, and I do not think anyone would want to get into Ottawa earlier than 6:20, and at 8:50 in Montreal. That is a good time. Those trains reach Winnipeg at 9 or 9:20. While there is an agreement between the roads that they will not continually try to shorten up their runs and thereby create an undesirable situation, the general object is to maintain the best running times for the convenience of the public. We plan to arrive in Winnipeg at a convenient time and our train leaves the east at such an hour as to enable it to arrive in Winnipeg the first thing in the morning; and the same thing applies at Vancouver, where we arrive first thing in the morning; with similar times at other important points. It is just about as convenient as it can be made. If any jacking up were attempted you would be arriving at unreasonable hours.

Mr. NICHOLSON: You have all your trains now getting into Winnipeg in the morning and there is a day spent in Winnipeg. Could you not eliminate that long layover at Winnipeg?

Mr. WALTON: The trains are timed to arrive in Montreal and Toronto, in the morning. There has to be an adjustment some place and the result is that you have the day in Winnipeg so that the service will enable you to arrive at the more important eastern points—or western points, as the case may be—at the most convenient hour. I might say, also, that the weight of public opinion seems to favour arrival at these eastern points in the morning, which naturally involves having a departure from Winnipeg timed to suit. The service is built up around what we have found by contact with the public to be public convenience.

Mr. GRAY: Is it understood that you are going to arrange for your vice-president in charge of traffic, to be here when the officials of the other department are before this committee?

Mr. VAUGHAN: Yes.

Mr. HANSON: This seems to be a general discussion about train services. I would like to ask, Mr. President, if there is any possibility of increasing your service on the northern lines?

Mr. VAUGHAN: That would depend entirely on the business offering. There is considerable prospective business on that line; particularly to Prince Rupert in connection with certain developments that are going on there about which we cannot say very much. If there is sufficient business to warrant an increase in the service, an increase will be made.

Mr. HANSON: There is just one passenger train a week now?

Mr. WALTON: There are 3 mixed trains a week.

Mr. HANSON: But just one passenger.

Mr. WALTON: That one passenger train was predicated on the triangle tour business, which is not going to be very substantial this year.

Mr. HANSON: But similar service would mean three mixed trains a week?

Mr. WALTON: Yes.

Mr. SHAW: I should like to have some information regarding the coal which is used by the Canadian National on its various lines, the extent to which coal is imported from the United States; and any changes which may have taken place during the past year with regard to the consumption of Canadian coal.

Mr. VAUGHAN: We will be very glad to furnish you with a statement in that connection. I may say generally that our imports of United States coal have increased because we were unable to get sufficient Canadian coal to meet our Canadian requirements. There was ample in 1939 and we were able to get Canadian coal which we used as far as Montreal and Toronto. This last year we have had to send American coal as far as Riviere du Loup and Edmundston.

The CHAIRMAN: How far west have you sent it?

Mr. VAUGHAN: We have brought western coal, Alberta coal as far east as Sioux Lookout; and in some cases as far east as Fort William.

Mr. SHAW: Am I correct in assuming from that statement that until recently you were able to get an ample supply of Canadian coal, and that the increase in the consumption of United States coal was on account of the inability to procure sufficient quantities of Canadian coal?

Mr. VAUGHAN: Yes.

Mr. SHAW: Have any difficulties been encountered in regard to getting additional coal from the United States?

Mr. VAUGHAN: No, sir. We have had no difficulty up to the present time. We are buying a lot of it at the moment. The United States authorities have advised everyone to get in as much coal as they can because of the possibility that there may be a shortage this fall.

Mr. SHAW: And further in that regard may I ask where in the United States this coal comes from?

Mr. VAUGHAN: That depends on where the coal is going to. We buy a certain amount of coal in western Kentucky, some from Pennsylvania, some from Ohio, and some from West Virginia.

Mr. SHAW: Is the Canadian National financially interested in any American mines?

Mr. VAUGHAN: Yes, sir; we own and operate the Rail and River coal mines in Ohio. But any coal that we have taken from these mines in years gone by has never been in competition with Canadian coal.

Mr. HANSON: Does the company operate that mine all the time?

Mr. VAUGHAN: Yes, it is being operated to capacity.

Mr. HANSON: What do they do with the coal that they do not take out for their own railway?

Mr. VAUGHAN: We sell it to others; or, sometimes we close the mines down.

Mr. HANSON: Then, it is not operated all the time?

Mr. VAUGHAN: It is only operated when it is economical for us to operate it. We have three mines all operated by the Rail and River coal mines, with a production of approximately 2,000,000 tons of coal.

Mr. JACKMAN: Just as a matter of interest, would you tell us what the average price of coal for 1939, 1940 and 1941 was?

Mr. VAUGHAN: You are talking about American coal?

Mr. JACKMAN: No, coal generally for the line.

Mr. VAUGHAN: The price of coal has been gradually going up. There is a minimum price in the United States, and I think a maximum price will be put on. We have only paid the minimum price in the United States. I think the average price in the United States last year was in the neighbourhood of \$1.80 a ton, whereas in Canada it would be two or three times that. That is the price at the mine.

Mr. HANSON: How long has the railway owned that mine in the United States?

Mr. VAUGHAN: I would say between 30 and 40 years. It was a property acquired by the old Grand Trunk Railway many years ago.

The CHAIRMAN: I was going to ask if the ownership of these mines was a business venture or an economic measure?

Mr. VAUGHAN: I imagine the principal consideration from their standpoint was economy. No doubt the Grand Trunk purchased these mines because they felt they could get their coal supply cheaper by owning their own mines.

The CHAIRMAN: About what percentage has coal increased in the past three years?

Mr. VAUGHAN: I would be glad to furnish you with a statement showing the average price at the mine of all coal. If this committee would like to have that we will file it.

Mr. JACKMAN: If it is not too much trouble, it is a matter of general interest. Also, with regard to ties; the rumour is that they have gone up very substantially in price. What has been your experience in buying ties during the last three years—and present contracts?

Mr. VAUGHAN: The price of ties has advanced materially. I think we are paying this year around 10 to 15 cents a tie more than we did last year for No. 1 ties. We paid more last year than we did the year before. We always keep within prices set by the Timber Controller.

Mr. JACKMAN: What is the price now for ties?

Mr. VAUGHAN: That would depend on the territory. We have different prices for different territories. I think for the No. 1 tie we are buying in eastern Canada the price is in the neighbourhood of 85 cents—yes, that is it. That is for No. 1; for No. 2, which is a smaller tie, 75 cents. For No. 3, 50 cents. That is about 10 cents a tie higher than the year before; and the year before was considerably higher than the previous year; so the price of ties has been gradually going up in the last three years.

Mr. JACKMAN: Can you get all the ties you require at the ceiling price now?

Mr. VAUGHAN: We have had difficulty in getting sufficient ties in certain districts, particularly hardwood ties for creosoting purposes. But we are getting enough to meet our requirements.

The CHAIRMAN: I think we had better proceed. You will be asking these questions all day.

Mr. JACKMAN: In the third paragraph under operating expenses it is stated: "In view of the more intensive utilization of system equipment it was thought advisable to increase the provision for depreciation. The provision made in the 1941 accounts was \$13,591,000 against \$11,262,000 in the preceding year." What is the reason for this increase? I mean, is this depreciation made more or less automatically; or, do you have a schedule, or is it simply left to the Board of Directors?

Mr. VAUGHAN: There is a regular basis for depreciation and we stepped that up last year a little.

Mr. JACKMAN: In addition to the regular basis?

Mr. VAUGHAN: Yes, sir.

The CHAIRMAN: I think we might try to get on a little further with this report.

Mr. SHAW: Reverting back for a moment to this transcontinental train service: It is generally understood that the C.N.R. roadbed throughout the west, particularly through the mountains, is far superior to that owned by the C.P.R.; and it is further the general belief that we could speed up our services, but that it is only out of consideration for the C.P.R. that we do not. Now, that is the common opinion held by people in the west. I would like to know to what extent we could step up our services, if we were for the moment at least to forget the C.P.R.

The CHAIRMAN: I would like to point out to the members of the committee that we have been over that ground just a few moments ago.

Mr. SHAW: I do not believe that that aspect of it has been pointed out.

Mr. VAUGHAN: I would not like to create the impression that we are governed by the C.P.R. in connection with the arrangements of our schedules, because that is not so. The arrangements made are to our mutual advantage; as I intimated before, I do not think it would be desirable at this particular time to speed up any of these transcontinental schedules, because very much other traffic is moving at the present time, and as Mr. Walton pointed out the schedules are arranged to arrive and depart from the larger centres at convenient times. If we were to alter these schedules we would not get into places like Edmonton, Winnipeg, and other points at convenient hours; the changes might cause our trains to arrive at times which would not be agreeable to the public generally.

Mr. SHAW: Of course, Mr. Chairman, what I had in mind particularly was not so much the desirability as the ability to speed up these services. That was what I was trying to get at. We could, I would judge, speed up our service; whether it is desirable to do so at the present time or not is apart from the main issue.

Mr. VAUGHAN: What would you say to that, Mr. Walton?

Mr. WALTON: I think some of these trains could be speeded up a little and at the same time maintain safe operation. The schedules are slower through the mountains than on the prairies, for obvious reasons; and while we have an easier grade on the line than the Canadian Pacific through the mountains, the Canadian Pacific have been operating a great many more years than we have, and that has something to do with the stability of the road. I would say that I think we could cut down the time a little but it would not make any appreciable difference in the practical time of arrival at important points.

The CHAIRMAN: Let us proceed.

Mr. JACKMAN: Before we leave the second paragraph on page 5, may I refer to the following. The paragraph begins:

The railway and its equipment have been maintained in satisfactory operating condition. System freight car serviceability throughout the year was the highest on record, the year's index registering 96·4 per cent.

I notice in the C.P.R. report their index is 98 per cent. You say, "The ratio of locomotives in serviceable condition was 79·6 per cent, the highest for several years." Whereas the C.P.R. says theirs is 92·3 per cent. To a layman it seems rather an extraordinary difference.

Mr. VAUGHAN: I think we will find there a different method of computation. Is that so, Mr. Cooper?

Mr. COOPER: Yes.

The CHAIRMAN: Would you care to explain?

Mr. VAUGHAN: Mr. Armstrong has some figures.

Mr. ARMSTRONG: For serviceability of equipment we showed 81·9 per cent, and the Canadian Pacific 92·3 per cent. In the Canadian Pacific figures they show every locomotive which is going into the main shop for repairs. We on our part count any locomotive if it is awaiting repairs in excess of twenty-four hours. There is a difference in the method of counting the locomotives, in counting unserviceability. That would account for some of the difference between the two figures. For freight cars there is a small difference. The Canadian Pacific shows 98·0 per cent, we show 97·1. Even there the difference is not great, but it is accounted for to some extent by the method of counting. The C.N.R. calculates its bad order cars by the number of unserviceable days in the period. The Canadian Pacific on their part count the number of unserviceable cars at the end of the period. There is a difference in the method and basis used.

Mr. JACKMAN: I am sure you will appreciate the difficulty the non-technical man has in trying to compare the two systems. One might take it from your remarks and those of the president, if the competitive systems were on the same basis the reports would be identical.

Mr. ARMSTRONG: Not necessarily so at all. They might be expected to be, in these times, not very far apart.

Mr. JACKMAN: Is there any way that this committee, which is charged with a duty of examining the report of its railway, can find a basis of comparison which is fair? Do you follow a standard like the I.C.C. standard, shall we say?

Mr. ARMSTRONG: Yes, we do follow the I.C.C. plan.

Mr. JACKMAN: The C.P.R. follows its own standard?

Mr. ARMSTRONG: Of course, we do not know in every detail—you could call it their own standard, because it differs from the I.C.C.

Mr. JACKMAN: Is it the standard adopted from the practice in Great Britain?

Mr. ARMSTRONG: I could not say as to that. The only possible way of finding out definitely why there is a difference would be to examine the Canadian Pacific accounts. That is the only method I know of finding out what is the difference between the two—accounting for the difference in the figures. We do know the difference in the methods, as far as I have outlined.

Mr. SANDERSON: Mr. Chairman, we are on page 5, I think.

The CHAIRMAN: Yes.

Mr. SANDERSON: In regard to the hotel operating income, I see it has improved by \$89,591. I should like to have some information in regard to the earnings of all the hotels.

Mr. VAUGHAN: We have agreed, Mr. Sanderson, to file here, as we did last year, a statement of the earnings and expenses of our hotels. That will be filed with the committee.

Mr. SANDERSON: That would be all right; I have no objection to that, but I should like to know the names of the hotels that are making money. You can give that information, of course, Mr. President?

Mr. VAUGHAN: We can. That, of course, will be shown in the statement which we file. Generally speaking I can say offhand the Halifax hotel, the Chateau Laurier hotel, and one or two of the smaller hotels like the Edmonton hotel, are doing better than breaking even on operating expenses. But this statement will give you the whole picture.

Mr. SANDERSON: That is all right. Tell me, if you will, please, about the hotel at Vancouver that is jointly owned by the C.P.R. and the C.N.R.

Mr. VAUGHAN: No, sir, it is not jointly owned, jointly operated. It is owned by the Canadian National and the Canadian National leases it to the Vancouver Hotel Company, in which both companies have a 50 per cent interest.

Mr. COOPER: The operating profit of the Hotel Vancouver in 1941 was \$100,260. In 1940 it was \$73,708.

Mr. HANSON: Is that the net profit?

Mr. COOPER: That profit is divided three-quarters to the Canadian National and one-quarter to the Canadian Pacific.

Mr. SANDERSON: Three-quarters to the Canadian National?

Mr. COOPER: Yes, sir.

Mr. HANSON: What was the total cost of the hotel up to 1940?

Mr. COOPER: The investment expenditures for the Vancouver hotel to the end of 1941 were \$11,625,000.

Mr. HANSON: How many rooms are there in the hotel?

Mr. COOPER: I think approximately the same as the Chateau Laurier.

Mr. VAUGHAN: Six hundred, or something like that.

Mr. COOPER: The Chateau Laurier has 520 rooms, the Vancouver hotel is about the same.

Mr. SANDERSON: Your hotel profits consist largely of the profit at the Chateau Laurier. The Chateau Laurier makes the largest profit?

Mr. VAUGHAN: Undoubtedly, yes.

Mr. JACKMAN: What is the basis of that lease to the operating company? How much do you get?

Mr. COOPER: The operating company is required under the lease to pay its net income as rent up to an amount of \$280,000. In the first place the entire net income goes to the Canadian National Railways as rent. Our agreement with the Canadian Pacific is we will pay to them one-quarter of the rent received. That is a consideration in respect to certain arrangements regarding their old hotel.

Mr. JACKMAN: They had a hotel there originally?

Mr. COOPER: Yes.

Mr. JACKMAN: And the basis of this arrangement concentrating the volume of business in the one hotel was that all rentals come to the C.N.R., but that after \$280,000 is allowed one-quarter of the excess goes to the Canadian Pacific Railway?

Mr. COOPER: No. The lease calls for a rent to the Canadian National of \$280,000 if earned. To the extent that it is earned that is the rent for the year. There is no carry forward and no arrears. They pay the net earnings for the year and that ends it. We pay to the Canadian Pacific one-quarter. The Canadian Pacific in 1941 would collect \$25,000 of the \$100,000 net income.

Mr. JACKMAN: You get no rental charge before they get their one-quarter?

Mr. COOPER: No; if the Vancouver hotel made \$100 net income the Canadian Pacific would get \$25.

Mr. JACKMAN: If you should by some happy stroke earn more than \$280,000, how is the division then, on the same basis?

Mr. COOPER: I am not sure about that. It is a possibility we have not contemplated.

Mr. SANDERSON: You have not reached it.

Mr. JACKMAN: I am not familiar with the situation in Vancouver. It is many years since I have been there. The Canadian Pacific had an hotel there; that is the story?

Mr. COOPER: Yes.

Mr. JACKMAN: They turned it into something else?

Mr. VAUGHAN: They had a very old hotel there which has been rented to the Department of National Defence for the use of troops.

Mr. JACKMAN: Why did they get this apparent favourable contract with the Canadian National? After all they have no capital investment in the hotel operating to-day and yet they get one-quarter of your earnings.

Mr. VAUGHAN: When the deal was negotiated our people believed it was the right thing to do because it closed the Canadian Pacific Railway hotel. Both hotels would have been competing against each other and probably both would make large losses had they continued to operate individually.

Mr. JACKMAN: So the quid pro quo was closing the Canadian Pacific hotel and concentrating all the business in the big hotel which might then operate at a profit?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: It would be like closing the King Edward Hotel in Toronto and the Royal York getting all the business.

Mr. VAUGHAN: And, of course, the Canadian National is interested to some extent in the salvage of the old Canadian Pacific hotel.

Mr. JACKMAN: To what extent? It is being rented now to the Department of Munitions and Supply?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: Who gets that rental?

Mr. COOPER: The old Canadian Pacific hotel is now rented to the Defence Department. I think it is used as a sort of recruiting centre. National Defence pay \$1,000 a month and the revenue and the expenses of administering the hotel are divided 50-50 between the two railways.

Mr. JACKMAN: The Department of National Defence pays that amount to the C.N.R.?

Mr. COOPER: No. The hotel was owned by the Canadian Pacific Railway and payment is made to that Company.

Mr. JACKMAN: The Department of National Defence pays \$1,000 a month?

Mr. COOPER: \$1,000 a month.

Mr. JACKMAN: You get something out of that?

Mr. COOPER: We would get something except for taxes; the taxes are rather high and we have to assume our share.

Mr. JACKMAN: You have got a certain liability in connection with the old Canadian Pacific Railway hotel?

Mr. COOPER: At present, yes. If the Canadian Pacific hotel is sold or pulled down, under our agreement we would have a share in the proceeds.

Mr. JACKMAN: Is this agreement in regard to the new hotel on a very long-term basis, because the Canadian Pacific has not proprietary interest in it; it is all owned by the Canadian National, is it not?

Mr. COOPER: The Hotel Operating Company, the stock of which is owned 50-50 by each railway, that is the company which operates the new Vancouver hotel, has a twenty-one year lease with the option of renewal for another twenty-one years. The Canadian Pacific Railway may share in the operation of our hotel for a period of forty-two years, if they choose.

Mr. JACKMAN: In return for that they closed down the old hotel and gave you a proportion of the salvage value?

Mr. COOPER: That is right.

Mr. JACKMAN: What is the proportion?

Mr. COOPER: I could not recall exactly.

Mr. JACKMAN: All right.

Mr. SANDERSON: Does that mean that the new hotel in Vancouver is owned by the two railways in the proportion of 50 per cent each?

Mr. COOPER: No. The hotel is the property of the Canadian National Railway Company, 100 per cent. Canadian National made a lease to a company called the Vancouver Hotel Company, the stock of which is owned 50 per cent by the Canadian National and 50 per cent by the Canadian Pacific. The hotel company—that is, the operating company—is, under its lease, obligated to pay rent to the Canadian National Railway.

Mr. SANDERSON: I understand it now. Thank you.

Mr. HANSON: Mr. Chairman, yesterday there was sent to me a number of questions regarding the Vancouver hotel.

The CHAIRMAN: A little louder, Mr. Hanson. I can hardly hear you, and I know the committee are in no better position.

Mr. HANSON: There were some questions sent to me regarding the Vancouver hotel yesterday. Pretty nearly all of them have been asked, with the exception of this one. It is from a public body in Vancouver and is to the effect that many complaints from the general public have been lodged regarding the lack of attention at the telephone exchange at the Vancouver hotel. I do not know whether that has anything to do with the management, but I thought probably I should ask.

Mr. VAUGHAN: We shall be very glad to look into that and correct anything that is wrong. We have not heard about it here. It would be a matter of local management.

Mr. JACKMAN: Do you consider that, on the whole, the C.P.R. have a bigger interest in hotels than the C.N.R.?

Mr. VAUGHAN: Across Canada?

Mr. JACKMAN: Yes.

Mr. VAUGHAN: They have a much larger investment in hotels than we have.

Mr. JACKMAN: I noticed somewhere in their report that they have a very substantial increase in earnings during the year; that is, in hotel earnings. I do not see it at the moment. Also they had this paragraph, "Net earnings from hotel, communication and miscellaneous properties after provision of \$1,400,624 for depreciation on hotels." Are they following a procedure which I would consider more orthodox than the C.N.R. does in regard to hotel accounting?

Mr. COOPER: The Canadian Pacific is accruing depreciation with respect to its hotel investments and the Canadian National Railway is not.

Mr. JACKMAN: You are still following the retirement policy?

Mr. COOPER: Yes.

The CHAIRMAN: I should like to consult the members now with regard to a session of the committee this afternoon. This is Friday afternoon. We would like to get on with this work. We have had very free discussion of everything this morning and yet we have not covered much ground except by way of discussion.

Mr. GRAY: We always take a day or two with this preliminary discussion.

The CHAIRMAN: I appreciate that.

Mr. GRAY: We will have to come back next week anyway.

The CHAIRMAN: What is the wish of the committee? Shall we meet this afternoon?

Mr. JACKMAN: We have to come back next week necessarily, I suppose, Mr. Chairman?

Mr. GRAY: Yes.

Mr. JACKMAN: It is only a half day in the house.

The CHAIRMAN: I should like to say this. I would remind the committee of this point, that it is at considerable inconvenience that the railway officials come here, and that they are under particular stress just now by way of being short-handed and they have a lot of extra work under consideration. So if the committee were not very definitely decided about the matter, we might get in an hour or two this afternoon. However, that is up to the committee.

Mr. NICHOLSON: In view of the work that is piling up for the officials, I think we might meet this afternoon.

Mr. McCULLOCH: I move that we meet this afternoon at four o'clock.

Mr. DONNELLY: I will second that.

The CHAIRMAN: There is a motion that the committee meet this afternoon at four o'clock. All those in favour? 11. Against? 2.

Motion agreed to.

Mr. JACKMAN: Might we just ask the officials whether or not they would prefer to go back to Montreal on the early train this afternoon or prefer to stay over.

Mr. VAUGHAN: We would prefer to stay over.

The CHAIRMAN: I do know that the officials are very anxious to get through with this. We have had a vote on it, so we will meet this afternoon at four o'clock. But we still have a few minutes left before one o'clock.

Mr. HAZEN: Mr. Chairman, I note that in the report it says "the financial results of separately operated subsidiary companies improved to the extent of \$1,169,000." Is a list of these subsidiary companies given in this report in the back?

Mr. COOPER: Yes, you will find it on pages 22 and 23. On those pages you will find a list of all the companies that are comprised in the system and the so-called separately operated companies are all indicated by an asterisk. If you will read the footnote on page 23, you will find, "The income accounts of companies indicated with an asterisk are included in the system income account as 'separately operated properties'".

The CHAIRMAN: I think we ought to take that matter when we come to it, gentlemen, and get through this report of the president first of all, if possible. Then if we have any questions in our minds we can have them cleared up at the end.

Mr. HANSON: Let us proceed then.

Mr. JACKMAN: There is just one point on the amount of money that has been spent on the protection of the company's properties. I presume that your legal department has taken up with the government whose duty it is to protect against sabotage.

Mr. VAUGHAN: Yes, we have had that up, Mr. Jackman. It has been a matter of much discussion and correspondence. They are doing some protection and we are doing some. But it is an extra expense that we are being put to for the protection of our line for the handling of traffic during the war period.

Mr. JACKMAN: You are spending \$500,000 and I suppose employing three hundred or four hundred men on that job?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: Do you feel that the government has acted fairly in view of whatever legal obligation there is on the government to afford you protection.

Mr. VAUGHAN: I am not sure that it was dealt with from a legal standpoint. But the present arrangement was one that was arrived at and I think is mutually satisfactory.

Mr. NICHOLSON: Mr. Chairman, I received a complaint this morning to the effect that the men engaged for the protection of the company's property are not receiving the cost of living bonus. Can the president make any statement regarding this situation?

Mr. WALTON: The situation in that regard was that it was understood they were not entitled to the cost of living bonus, having been granted certain increases in pay within the time referred to in the orders in council which govern the cost of living bonus. At the present time that is being looked into again to see if there is anything in their contention that they are still entitled to the cost of living bonus. But from the last stage of it that I saw a few days ago, it did not look as though they were entitled to it, in view of the wording of the various orders in council that govern the cost of living bonus.

Mr. NICHOLSON: My information is that these men are being paid forty cents an hour, for an eight hour day, seven day a week. I wonder if that is correct.

Mr. WALTON: I am not sure what their actual hours are.

Mr. NICHOLSON: What about the hourly rate.

Mr. WALTON: I think it is around forty cents an hour.

Mr. NICHOLSON: Can you find out definitely.

Mr. WALTON: We can get the rate.

Mr. VAUGHAN: We will get the rate for you.

The CHAIRMAN: Will you proceed Mr. Vaughan.

Mr. VAUGHAN: Yes.

FINANCE

No security issues fell due for retirement during the year other than the normal annual payments of principal under equipment trust, sinking fund, and serial issues, which totalled \$9,666,000. This amount was financed through loans from the Government.

The primary reason for the decrease in interest paid to the public and the increase in interest paid to the Government lies in the repatriation of the G.T.R. 4 per cent debenture stock referred to elsewhere in this report.

Cash Surplus

From the foregoing it will be noted that the gross revenue for the year was \$304,376,000. After the payment of all operating expenses the net revenue remaining was \$66,608,000. Out of this, taxes, fixed charges, etc., absorbed \$62,592,000, leaving a cash surplus of \$4,016,000, or \$21 millions better than the results reported last year. Payment will be made to the Government before the close of the fiscal year ending March 31st, 1942.

CAPITAL EXPENDITURE ACCOUNT

The net expenditures on property investment account for the year 1941 amounted to \$13,762,485, made up as follows:

Equipment purchased or built.....	\$ 6,751,629
Equipment retired.....	3,135,087
General betterments to equipment.....	345,848
Equipment conversions and transfers.....	843,930
Express and miscellaneous equipment.....	69,611
Line diversion, Holly, Mich., subdivision.....	275,000
Centralized traffic control.....	1,381,453
Track extensions at Truro, N.S.....	212,511
New engine terminal at Fairview, N.S.....	247,346
Yard extensions between Fairview and Richmond, N.S.....	189,279
Locomotive erecting shop at Moncton, N.B.....	539,994
Yard extensions at Moncton, N.B.....	313,123
Track extensions at Napadogan, N.B.....	84,433
Track extensions at Estcourt, Que.....	34,698
Yard extension at Joffre, Que.....	124,486
Yard extension at Turcot, Que.....	485,011
Yard extension at Point St. Charles, Que.....	99,762
Locomotive shed at Point St. Charles, Que.....	50,768
Track extension at Pickering, Ont.....	133,131
Montreal Terminal Development.....	3,011,781
General additions and betterments, less retirements.....	3,391,638
	<hr/>
	\$13,762,485

The extension and rearrangement of yard terminal and track facilities above referred to were necessary for the handling of increasing wartime traffic.

The expenditures on the Montreal Terminal bring the expenditures to date to a total of \$25,436,000, of which \$16,651,000 was expended prior to 1939 and \$8,785,000 since January 1st 1939, when construction was resumed on the modified plan. The 1942 budget includes \$1,900,000 for the completion of the project.

The following equipment was acquired during the year: 9 electric locomotives, 4 diesel switching locomotives, 28 second-hand coaches, 19 colonist cars, 5 sleeping cars, 1 mail car, 300 box cars, 300 flat cars, 475 coal cars and 232 work units.

The following equipment was retired during the year: 73 locomotives, 525 freight train cars, 12 passenger train cars, 322 work units and 3 units of floating equipment. The loss has been charged to depreciation reserve.

Mr. JACKMAN: Under the Capital Expenditure Account, the second item, you have "equipment required \$3,135,087." I believe there is set up in your depreciation on your rolling stock, according to your policy inaugurated last year, \$13,391,000 in addition. So that gives us a total, if you like, of \$16,000,000 odd. Of what is that a percentage? Looking at your assets side of the balance sheet, the railway rolling stock and everything is lumped together. How much is rolling stock or equipment carried at in your books?

Mr. COOPER: \$435,000,000.

Mr. NICHOLSON: At what date?

Mr. COOPER: At the beginning of 1941, \$435,000,000. Provision for depreciation in 1941 represented 3·12 per cent of the value of the equipment which we owned. We have different rates for the different classes of equipment—locomotives, passenger train cars, freight train cars, and so on—we have different percentages for the different classes; but taking the composite rate for all our equipment the depreciation in 1941 represented 3·12 per cent of the investment. That item compares, for instance, with the Pennsylvania railway rate of 2·79%; New York Central, 2·81; Southern 2·99; B & O 2·79; Great Northern 2·8; Northern Pacific 2·83; so the Canadian National Railway's provision for depreciation in 1941 was somewhat better than that of the important roads I have referred to.

Mr. JACKMAN: Is the 3·12 per cent the combination of the \$13,591,000 plus \$3,135,000?

Mr. COOPER: No.

Mr. JACKMAN: It is just depreciation alone?

Mr. COOPER: Yes.

Mr. JACKMAN: It is not retirements?

Mr. COOPER: No.

Mr. JACKMAN: The retirements would tend to increase the depreciation rate?

Mr. COOPER: No, sir, I do not think that is an addition; I think having provided for depreciation you have fully provided for the wearing out of equipment, and the amount of equipment which is physically retired during the year is merely a charge to the depreciation reserve; it is not an addition in the operating expense of the railroad.

Mr. JACKMAN: You have got your equipment now on a pure depreciation policy, and that was only adopted last year, and there is nothing in the retirements policy in connection with equipment any longer?

Mr. COOPER: That is correct. I might add too for the information of the committee that in view of the increased traffic in 1942 we are making still further provision for depreciation over and above what we did in 1941, so there can be no thought that we are not adequately taking care of the wearing out of equipment even under the intensive use to which it is subject under war-time traffic conditions.

Mr. JACKMAN: Could you give us a representative picture, a comparison of the number of miles, average miles, the rolling stock travelled during 1941 as compared with a more normal year, say, 1939—would there be a 50 per cent increase?

Mr. COOPER: That statistical information is all given on page 27.

Mr. WALTON: Will you not have to keep in mind that those figures include the mileage on foreign cars as well as upon our own?

Mr. COOPER: I was thinking more of locomotive miles. In 1941 our train mileage was sixty-one million as compared with fifty-three million in

1940. That was an increase of 13·75 per cent—the locomotive mileage increase was 16 per cent; the car miles increased 22·0 per cent. We made a computation of the increased use of equipment in 1941 over 1940 and the increase in use would have produced an added depreciation charge of something like \$1,930,000. Actually we stepped up the depreciation charge by over \$2,000,000. The only reason for that is that in making our charges in the account the final mileage figures were not available; but in principle the idea is that the depreciation, the normal rates for depreciation, or the sum produced by the application of the normal rates will be increased proportionately to the increase in the mileage made by our equipment.

Mr. JACKMAN: This has been charged to depreciation reserve; it refers to the \$3,135,000—the last sentence in the paragraph?

Mr. COOPER: Yes.

Mr. JACKMAN: Notwithstanding the favourable comparison in the depreciation rate at 3·12 as compared with some of the class A railroads in the United States, do you believe that the typical rolling stock will last about thirty-two or thirty-three years?

Mr. COOPER: Our mechanical engineers give it a life even in excess of that.

The CHAIRMAN: I do not suppose it is worth while to proceed any further with the reading of the report because we will not have time to discuss it before adjournment. If there is no objection we will adjourn until 4 o'clock.

The committee adjourned to meet at 4 o'clock.

AFTERNOON SESSION

The committee resumed at 4 o'clock.

The CHAIRMAN: Order, gentlemen.

Mr. DONNELLY: When the Montreal terminal is completed, is it the intention of the Canadian National to keep the old Bonaventure station?

Mr. VAUGHAN: No, sir, it is not; it will be demolished.

Mr. DONNELLY: I notice here that you have acquired 28 second-hand coaches. From whom did you acquire those?

Mr. VAUGHAN: Those would be pullman coaches. These were cars we acquired from the Pullman Company. It is impossible to get coaches delivered in Canada within any reasonable period. We required those coaches for various purposes. One was to take care of a heavy movement to and from munitions plants. Take, for example, Cherrier, which is about ten miles from Montreal, where we handle over 10,000 people a day. We have some other situations like that such as between Winnipeg and Transcona and also between Quebec and Valcartier. These coaches were bought to take care of those services to a large extent.

Mr. LOCKHART: I should like to refer to another item on the capital expenditures in the paragraph below in connection with the Montreal terminal. Could the committee be furnished with the amount of priority that was granted in such items as steel and copper for the construction of this station?

Mr. VAUGHAN: Of the new station?

Mr. LOCKHART: Yes.

Mr. VAUGHAN: Well, that might be difficult to get because a good deal of the work was done by contractors.

Mr. LOCKHART: Priorities have been granted to a large extent.

Mr. VAUGHAN: Most of the material, of course, was ordered and on the way before metals got as scarce as they are to-day. The contractors arranged for their own priorities on that material.

Mr. LOCKHART: Have there been any priorities since that order went into effect?

Mr. VAUGHAN: None that I know of; there may have been.

Mr. LOCKHART: Could I have a statement as to that fact so that we will know exactly the amount of steel and copper and those other items under which priorities were given?

Mr. VAUGHAN: Yes, we will be glad to give you a memorandum on that so far as we can get it. There was very little copper used; we eliminated copper wherever possible.

Mr. LOCKHART: Not all. There will be some copper?

Mr. VAUGHAN: Some undoubtedly there will be.

Mr. LOCKHART: Thank you.

Mr. JACKMAN: In your statement I see the 1942 budget includes \$1,900,000 for the completion of the Montreal terminal. That is enough to complete it?

Mr. VAUGHAN: Yes, that is the capital amount. We think that will be sufficient to complete it.

Mr. JACKMAN: Does the modified plan of the structure change the prospective earning picture of the station greatly? I realize that the station is part of the whole system; but I presume that the way in which the building was cut down, the height of the number of storeys and so on, would materially alter the amount of revenue that you would expect from it.

Mr. VAUGHAN: Are you referring to the station itself, Mr. Jackman? Of course the whole project has been changed.

Mr. JACKMAN: I am not familiar with the comparison between the modified plans and the original plans except the modified plans require much less capital to go on with; but I presume the fact that you are not going on with the full plans, it will reduce the original contemplated earnings quite substantially. Will you have any direct earning power from the station as it will be when finished now, or is it just part of the system? I presume, from the pictures that I saw the original plans contemplated the erection of offices that you would obtain rent from.

Mr. VAUGHAN: There will be offices there, but only for some of our district officers. There will be substantial economies when the new station is in operation, substantial operating economies. Our earning power has not been cut down at all in the station as the result of the modified plans. The original plans called for more trackage such as from Dorval and Bout de L'Isle. Those parts have not been constructed.

Mr. JACKMAN: The modified plan has really more to do with construction outside the immediate area of the station—

Mr. VAUGHAN: Modified plan has to do with the construction of the station and the approaches that were necessary to the new station. Several new approaches had to be made; new bridges across the canal and things of that kind.

Mr. SANDERSON: Mr. Chairman, I should like to ask the president when they expect to use the terminal, when it will be finished.

Mr. VAUGHAN: We expect to have it open this fall, Mr. Sanderson. We cannot say what date it will open; it depends upon the progress the contractors make, but we are expecting to have it open late in the fall.

Mr. SANDERSON: Your offices now are at—

Mr. VAUGHAN: 360 McGill street.

Mr. SANDERSON: Are you still going to use the building?

Mr. VAUGHAN: Yes, we will continue to occupy the office buildings which we own on McGill street. Only the district operating offices will go to the new terminal. The original plan, of course, contemplated a new large office building there, which is not being considered at all at the present time.

Mr. JACKMAN: May I refer to the depreciation on rolling stock again? The company last year changed over from retirement accounting to depreciation accounting, and you had on your books—

Mr. COOPER: Mr. Jackman, it was changed in 1940.

Mr. JACKMAN: This is the second year.

Mr. COOPER: This is the second year.

Mr. JACKMAN: You had, however, at that time a lot of rolling stock the average life of which was very substantially less than the average life of a lot of the new rolling stock.

Mr. COOPER: Yes.

Mr. JACKMAN: That would be accepted, I think. Well, if we are now following the practice of some of the American railroads—are we doing that now?

Mr. COOPER: Yes.

Mr. JACKMAN: Other people would have had that practice of depreciation accounting in practice from the beginning and therefore when the stock was twenty or thirty years old there would have been a tremendous reserve set-up. How do you expect when you only started a reserve account for your equipment last year, with some of your equipment half worn out on the average, that you are going to have enough to replace it from time to time? May I give as an example the illustration of a taxi company that has been in business for a great many years. Say they originally started with a retirement account and would expect to replace their cars from time to time, but the third year of the existence of this company they switched over to depreciation accounting. Then by shall I say exaggerating or falsifying their current earning position—

Mr. COOPER: Falsifying?

Mr. JACKMAN: Perhaps I should not use that word.

Mr. COOPER: You are not affecting the current earning position at all.

Mr. JACKMAN: Just let me get back to my simple example.

Mr. COOPER: In this matter we are not in any way different from United States railways which are subject to the accounting instructions with respect to depreciation issued by the Inter-state Commerce Commission. There was a date even when the American railways changed over retirement accounting to depreciation accounting.

Mr. JACKMAN: When they changed it over they did not find it necessary to set up a depreciation reserve which might have been accumulated had depreciation accounting been in existence from the acquisition of the rolling stock.

Mr. COOPER: They were not required to set up past accrued depreciation.

Mr. JACKMAN: They were not required to, but have they found it not necessary?

Mr. COOPER: I would say they have not done it, and they have not found it necessary.

Mr. JACKMAN: How many years is it since the American lines changed over?

Mr. COOPER: The Commission made depreciation accounting mandatory in 1907 or 1908, but they did not fix the rates. The railways were allowed to take up any percentage that they chose. Some of the railways, for instance,

took up one-half of one per cent. In 1914, however, the Inter-state Commerce Commission stipulated that the rates should be equitable in the light of the carrier's experience. In 1935 the Commission required the railways to furnish estimated service lives and estimated salvage values, and determine to the best of their judgment what the depreciation rates should be. Those rates were then submitted to the commission. They were reviewed by the commission experts and approved or modified to meet the requirements of the commission. But the commission at no time has insisted on the past accrued depreciation being set up. There is no requirement for the carriers to set up past accrued depreciation. At the end of 1941 we have a reserve of \$27,000,000. I have no doubt that for some time to come there will be a substantial annual increase in that reserve. In 1942, for example, we are setting up approximately \$15,500,000 of depreciation to the credit of our reserve. The actual charges to the reserve will be in the neighbourhood of \$2,000,000 to \$3,000,000. There will be an accretion to the reserve therefore in 1942 of some \$12,000,000 or \$13,000,000; which will give us approximately \$40,000,000 at the end of 1942; and that process will go on for some time. Under continuous normal conditions I think you will find that the reserve would stabilize at approximately 50 per cent of the ledger value of the equipment.

Mr. JACKMAN: Am I correct in understanding that the ledger value was about \$135,000,000?

Mr. COOPER: No, \$435,000,000.

Mr. JACKMAN: Reasoning from the abstract I fail to understand how the accounts can work out fairly. If you had started this writing off of a large percentage of your depreciation at the time you acquired your equipment, at the end of 30 years you would have a fund built up which would veritably replace all your equipment. Now you have a policy of principle of retirement depreciation and for a good many years in the life of your equipment your retirements must be practically negligible. None of the equipment wears out inside of 10 years, and as for the life that you stated this morning, in excess of 30 years would be more like it. Well, you suddenly switch over from this retirement depreciation policy for your equipment which over the average must have half of its life spent, to a policy of depreciation accounting allowing so much per year, which is not an excessive rate. I do not see how the policy can really work out fairly to the operating account and the capital account of the company. Supposing you had gone on until your equipment was practically all fit for retirement and then you suddenly switched over; how could you accumulate enough at the ordinary rate of depreciation of say 3 per cent to look after that? You have just told me that the experience of the American railroads seems to bear out the suggestion that you have no worries ahead; but I cannot understand how it does work out that way when it seems from the standpoint of theory at least to be quite unsound. Do I make my difficulty clear to you?

The CHAIRMAN: Might I ask the hon. member just what point he is endeavouring to pursue; because I am afraid it is over the heads of many of the rest of us; and we are using up a lot of time.

Mr. McCULLOCH: I think you had better take him as an assistant, Mr. Cooper; he would train you in how to do it.

Mr. COOPER: You may assume that if in the future the railway were to go out of business we would be confronted with the retirement of all our equipment, in that event you would be correct in assuming we would not have a reserve sufficient to meet the loss which would have to be met at that time. But that is not a reasonable assumption, it is not going to happen. Well then, we are now taking up sufficient annual amounts, and assuming the retirements in the future will not

be abnormal, my belief is that the net additions to the reserve over the years ahead will build up a reserve which will never be used so long as the railways remain as a going concern.

Mr. JACKMAN: But 3 per cent is an ample rate now to look after current depreciation. What in your opinion would have been an adequate rate for a railway setting out new with brand new equipment?

Mr. COOPER: I would say that it would be less than 3 per cent.

Mr. JACKMAN: I still have my difficulty in understanding how it works out.

Mr. COOPER: Well, let me say this; taking modern equipment and beginning with a brand new railway; I am satisfied that taking the estimated life expectancy and the estimated salvage value and computing the depreciation rate that would meet the acceptance of the Inter-state Commerce Commission, a rate of less than 3 per cent would suffice.

The CHAIRMAN: I think perhaps you had better proceed.

Mr. JACKMAN: One more question, Mr. Chairman; how is the railway getting on with that when they have retired 73 locomotives during the year and only acquired 4 diesels and 9 electric locomotives?

Mr. VAUGHAN: These locomotives which we retired were old engines which did not have the carrying capacity or tractive effort of our modern power, and they had reached a stage where a substantial sum of money would have had to have been spent to put them back into service; so the most economical thing for us to do was to retire them.

Mr. JACKMAN: But there are only 13 acquisitions against 73 retirements.

Mr. VAUGHAN: I cannot say off-hand what the total tractive effort of the 13 would be. Of course, it would not be equal to the 73. But the 13 engines would probably do nearly as much work as the 73 old engines—

Mr. WALTON: Some of the locomotives were 42 years old, and they were actually out of commission anyway. They were useless. They might as well be fully retired and get the scrap from them as to have them standing around in a perfectly useless condition.

Mr. JACKMAN: Where do you use the electric locomotives?

Mr. VAUGHAN: They will be used in Montreal, in the new terminal, also we use electric locomotives in the St. Clair tunnel between Port Huron and Sarnia.

Mr. JACKMAN: They are just used on short hauls, there are no electrified lines of any distance?

Mr. VAUGHAN: We have an electrified line from Montreal to St. Eustache.

Mr. JACKMAN: How far is that?

Mr. VAUGHAN: We run several electric lines. We have the Montreal and Southern County line which runs from Montreal to Granby; we have the Oshawa electric railway; and we own the Niagara-St. Catharines-Toronto railway which serves the Niagara district.

Mr. JACKMAN: What I particularly have in mind is the electrification of former steam lines, real railroads.

Mr. VAUGHAN: The only steam line which we have electrified is the one to St. Eustache.

Mr. JACKMAN: How many miles is that?

Mr. VAUGHAN: About 20.

Mr. JACKMAN: Do you think there is a real development to come in the way of electrification of railroads throughout Canada, making use of the great electric power reserves that we have?

Mr. VAUGHAN: I think it is a long way in the future. It might come some day. I do not think it is a thing to which we need give very serious consideration at the present time.

Mr. JACKMAN: Do you have to have a very high traffic density to make possible the use of electrification?

Mr. VAUGHAN: Yes, you have to have traffic density in order to justify the expense of a change-over to electrical equipment which involves not only the use of overhead wires but other electrical installations as well.

The CHAIRMAN: These engines you are purchasing are for the purpose of manipulating in the tunnel, in order to do away with smoke and gases and so on?

Mr. VAUGHAN: Yes, for running in and out of the station in Montreal.

The CHAIRMAN: All right, Mr. Vaughan.

Mr. VAUGHAN: We now come to finance.

FINANCE

No security issues fell due for retirement during the year other than the normal annual payments of principal under equipment trust, sinking fund, and serial issues, which totalled \$9,666,000. This amount was financed through loans from the Government.

Arrangements were made to issue under the Grand Trunk Western Railroad Equipment Trust of 1941 \$5,692,000 2½ per cent equipment trust certificates dated June 1, 1941, maturing serially in 20 half-yearly instalments. The issue is being taken by The Reconstruction Finance Corporation at par plus accrued interest. To December 31 only \$2,000,000 of the certificates had actually been issued due to delay in the delivery of the equipment.

Reference was made in the 1940 report to the arrangement for the redemption of the 4 per cent perpetual debenture stock issued by the former Grand Trunk Railway Company of Canada. The total par value of stock redeemed to December 31, 1941, under the vesting order of His Majesty's Treasury of the United Kingdom, amounted to £22,760,000 or £260,000 in excess of the estimated amount provided for in the 1940 accounts. Stock redeemed in 1941 under the offer made by the company to residents of Canada amounted to £139,890. The cost of redeeming the £22,899,890, amounting to \$105,843,357, has been financed through loans from the Government. These arrangements have resulted in a reduction in the debt of the railway of \$5,602,774, of which \$5,503,500 was accounted for in 1940 and \$99,274 in 1941.

Since the close of the year further vesting orders have been made by His Majesty's Treasury transferring to the Treasury railway securities owned by residents in the United Kingdom to a very substantial amount, upon the condition that the railway company will purchase the vested securities from the Treasury at the vesting price.

Mr. JACKMAN: Might I ask a question on finance? This stock I presume is carried on the books of the company at the dollar par value, if you like; based on the par value of exchange, \$4.86 2/3 to the pound?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: And this acquired stock, this debenture stock, has been redeemed at that rate and that would amount to about \$5,601,000 of a book profit; was that transferred directly to your surplus account? What happens to the difference between the par value and the cost of the acquisition?

Mr. VAUGHAN: The capital account was credited and the difference went to the proprietor's equity account. Of course, there will be a further substantial capital readjustment in connection with the vesting order that has been issued during the current year.

Mr. JACKMAN: I do not suppose any question arises as to why you did the financing through the R.F.C. in the States instead of here? It was profitable to do that.

Mr. VAUGHAN: I did not catch that.

Mr. JACKMAN: I do not suppose there is an question which arises as to why you did the financing through the R.F.C.?

Mr. VAUGHAN: Because it was to our advantage to do it. We got our money very much cheaper from the R.F.C. than we could have floated an issue elsewhere.

Mr. COOPER: We financed it on a $2\frac{1}{2}$ per cent basis.

Mr. VAUGHAN: On a $2\frac{1}{2}$ per cent basis. We got our money cheaper there than we could have from the Canadian government.

Mr. JACKMAN: You raised plenty of money in the States through your American business.

The CHAIRMAN: Will you proceed with the next section, Mr. Vaughan.

Mr. VAUGHAN: Yes.

Line Abandonments

The Board of Transport Commissioners during the year granted permission to abandon the following lines of railway in co-operation with the Canadian Pacific Railway:

From	To	Province	Railway	Mileage
Oakland.	Delta.	Manitoba.	Can. Nat.	5.4
Langdon.	Irricana.	Alberta.	Can. Pac.	22.6
Irricana.	Beiseker.	Alberta.	Can. Nat.	10.0
				<hr/> 38.0

The Board refused permission to abandon the following lines in co-operation with the Canadian Pacific Railway:

From	To	Province	Railway	Mileage
Cataract.	Fergus.	Ontario.	Can. Pac.	24.7
West Tower.	Oakland.	Manitoba.	Can. Nat.	9.1
Oakland.	Cawdor.	Manitoba.	Can. Nat.	11.6
Muir.	Gladstone.	Manitoba.	Can. Nat.	10.3
Hamiota.	Miniota.	Manitoba.	Can. Pac.	19.8
MacGregor.	Varcoe.	Manitoba.	Can. Pac.	54.4
Hallboro.	Beulah.	Manitoba.	Can. Nat.	75.2
Reston.	Wolseley.	Man. & Sask.	Can. Pac.	122.4
				<hr/> 327.5

Mr. LOCKHART: In that first one, why was it refused? Could you give any reason?

Mr. VAUGHAN: Which is that?

Mr. LOCKHART: No. 1, Cateract to Fergus. Why was that refused?

Mr. ARMSTRONG: The Board of Transport Commissioners decided that, in their judgment, public convenience would suffer more than the advantage to the two railways.

Mr. HANSON: Was there duplication of lines?

Mr. ARMSTRONG: No. This was in connection with a power development. There was a dam put up across this particular section of the country, the Grand River, and this would flood part of the Canadian Pacific and they would have to re-locate the line. Rather than re-locate it, we offered them a co-operative arrangement to run on our line but the board turned it down.

Mr. VAUGHAN: These have all been up before the board.

The CHAIRMAN: The board has decided it.

Mr. VAUGHAN: These are all decided by the Board of Transport Commissioners.

The CHAIRMAN: If the board has decided, I do not suppose there is very much that can be done about it.

Mr. LOCKHART: It still will not take care of the deficit that will accrue.

The CHAIRMAN: No. If you do not want those lines read, gentlemen, we will proceed.

Mr. HANSON: Put it in the record.

The CHAIRMAN: All right. Will you proceed, Mr. Vaughan?

Mr. VAUGHAN: Yes.

During the year application was made to the Board, jointly by the Canadian National and Canadian Pacific, for permission to abandon 6.5 miles of the Canadian National and 53.4 miles of the Canadian Pacific between Forth (near Red Deer) and Ullin, Alberta, and decision is pending. The Board rescinded the order approving the abandonment of 37.9 miles of the Canadian National line between Arnprior and Eganville, Ontario, and a rehearing is pending.

The joint application of the Canadian National and Northern Alberta Railways requesting permission to abandon 12.2 miles of the Canadian National between Trelle Junction and Morinville, and 29.8 miles of the Northern Alberta Railways between Carbondale and Egremont, in the Province of Alberta, was granted as regards the Canadian National line but refused as regards the Northern Alberta Railways line.

In addition to the above mentioned co-operative abandonment projects, the Board of Transport Commissioners during the year granted permission to the Canadian National to abandon the following unprofitable light traffic branch lines:

From	To	Province	Mileage
Parisville.	Deschaillons.	Quebec.	3.5
Port Hope.	Millbrook.	Ontario.	16.2
Whitby.	Port Perry.	Ontario.	17.5
Tweed.	Yarker.	Ontario.	33.9
Napanee.	Deseronto.	Ontario.	6.3
Clinton.	Wingham.	Ontario.	22.9
			<hr/> 100.3

Mr. NICHOLSON: Has the steel been lifted in all these cases?

Mr. VAUGHAN: It may not be in all cases. We are getting around to that as fast as we can. In most cases the steel has been taken out.

Mr. SHAW: Mr. Chairman, I should like to refer to paragraph 3 which states that during the year application was made to the board jointly and so forth with respect to this line of rail west of Red Deer in the province of Alberta. I wish to make several observations, especially since the Board of Transport Commissioners have, on division, granted an application to abandon that line of rail. I wish to protest very vigorously against that action in the light of all the evidence submitted by the various boards of trade and so forth in that area. I do not know when this policy of making application for abandonment was first started or when or where it is likely to end. Those familiar with this line, which we regard as one of the Red Deer to Rocky Mountain House lines, will know that it serves a very important agricultural, mixed farming area. Not only that, but it is one of the lines leading up to Rocky Mountain House and serving Brazeau Collieries at Nordag which produces steam coal, Alexo and Saunders' mines which produce domestic coal. Not only that but there is a large lumbering industry carried on there in the production of fence posts, railway ties and so forth. By abandoning that section of rail, several towns which were built up on the section are going to be without rail service. In many cases they are going to find themselves approximately four miles from the operating line of rail, with the most difficult area lying between, a very low marshy area where roads are almost impassable during the greater part of the year. No provision

is being made to assist any of the businesses in those towns—I have in mind the lumbering areas, for example—while special consideration is being given to the grain companies, even to the extent of moving their elevators to new sites on the line of rail that is to operate. I wish to charge that I believe the railroads are breaking faith with the farmers and the business people of that country. Much of the land was sold by the railways to the farmers. The railway necessarily enhanced the value of a lot of that land. To-day the farmers of those areas affected are going to have to resort to the use of trucks to move their produce out, and that at the very time when the government tells us that the conservation of gasoline and the conservation of rubber is most essential. I say for that reason, if for no other, the application for the abandonment of that line of rail should not have been granted until after the cessation of hostilities.

Now, Mr. Chairman, I expressed, at the beginning, the observation that the Board of Transport Commissioners did not vote unanimously to grant that abandonment. I feel that the committee should support me in a motion to ask that the Board of Transport Commissioners be called before this committee—not only some of them but the dissenting ones also. I wish to move, Mr. Chairman, that the Board of Transport Commissioners be called before this committee to be interrogated regarding their position in connection with granting that application for abandonment.

The CHAIRMAN: I am inclined to think, Mr. Shaw, that this committee has no jurisdiction over the Board of Transport Commissioners whatever.

Mr. SHAW: Mr. Chairman, may I point out that it was a joint application of the C.N.R. and the C.P.R. I feel that, since it is included in this report and since it was a joint application, we have every right to request that the Board of Transport Commissioners be brought before this committee.

Mr. DONNELLY: I understand from this that the decision is pending, that it has not been given.

Mr. VAUGHAN: It has been given recently.

Mr. SHAW: The decision was given about ten days ago.

Mr. VAUGHAN: That is right.

The CHAIRMAN: From the chair I probably have no right to express an opinion, but I do not believe we have jurisdiction. However, if you make a motion, I will put it.

Mr. SHAW: I have so moved.

Mr. NICHOLSON: I second the motion.

Mr. MAYBANK: Mr. Chairman, I knew that the motion was going to be made. Mr. Shaw spoke to me about it. I thought there was the right to call these men, but on thinking it over—

The CHAIRMAN: I am sorry, but I cannot hear you.

Mr. MAYBANK: On thinking it over, I am wondering if they are not in the position of judges. I was at first inclined to think it proper for the Board of Transport Commissioners to be called. I spoke with Mr. Shaw earlier, and that is what I thought at first. But as I have been turning it over in my mind, it strikes me that these gentlemen are to be looked upon as one looks upon the judiciary. They perform only judicial functions, at any rate; and, therefore, I wonder if we can call them. I am not saying that I believe Mr. Shaw's argument is out of line, but just this particular motion. I wonder if we have power to call judicial officers to support their judgment.

Mr. GRAY: Following along the lines of Mr. Maybank's remarks, I was wondering if Mr. Shaw would be agreeable to have you look into our powers, Mr. Chairman, and give us a ruling. Would you be agreeable to that, Mr. Shaw?

Mr. SHAW: What is that?

Mr. GRAY: I was wondering if the Chairman, over the weekend, would look into our power. I am inclined to be sympathetic, but I am like Mr. Maybank. I very much doubt our power to summon them here. If the Chairman could look into that and give us the ruling, it might be well. There is no use of our passing a motion that is outside of our jurisdiction. The Chairman could report back to us at the next meeting.

Mr. SHAW: Mr. Chairman, in that regard may I point out that when I questioned the Minister of Munitions and Supply in the house—he was speaking for the Minister of Transport last spring—he said they were a judicial body and as he saw it, responsible to no one. But when I questioned the Hon. Mr. Cardin in this committee last year, he stated most definitely they are responsible to the government and that an appeal could be lodged with the government against any action of theirs. That was my reason for taking this course of action at this time.

Mr. GRAY: I think it rests entirely with the minister as to 'appeal. I think there is an appeal from the Board of Transport Commissioners, but I think that appeal lies to the responsible minister. I think that is entirely different from summoning that body or members of the board here. I would much prefer it, Mr. Shaw if you would not request it until you get a ruling.

Mr. SHAW: Mr. Chairman, I am perfectly willing to leave it with you to examine into it. But I would not like the opportunity to pass. In other words, I feel that the matter should be re-opened at the next sitting of the committee; and on that understanding I would say that I am absolutely willing to agree with Mr. Gray.

The CHAIRMAN: You are making a protest now and asking the chair to obtain a ruling as to the power of this committee?

Mr. SHAW: With respect to calling the Board of Transport Commissioners.

Mr. VAUGHAN: So far as the railways are concerned, we appeal to the judicial body constituted for that purpose; and, of course, we abide by their decision whether it is yes or no.

Mr. ROSS: How is the picture on that section? Is it pretty blank?

Mr. VAUGHAN: It is a matter entirely of economy. It is one of co-operation between the two railways, to effect economies, as we were directed to do under the Canadian National-Canadian Pacific Act.

Mr. DONNELLY: As a member of this committee, I do not feel that I am in any position to pass judgment on the advisability or otherwise of the abandonment of this line, or to condemn the Board of Transport Commissioners, unless I get more evidence.

The CHAIRMAN: I think the position, so far as the committee is concerned, is that a federal representative from that district feels that this action is not only unwise but unfair and wishes to follow it up. He has made a motion before the committee which will be accepted if we have power to act thereon. The matter has been left in the hands of the chair. In the meantime we will proceed to something else.

Mr. SHAW: It is just given two days' hoist.

The CHAIRMAN: The motion will stand.

Mr. NICHOLSON: Before you proceed to the next section, I have a question to ask. You said you were proceeding with lifting the steel on some of these abandoned lines. I might say that I was over this line from Clinton to Wingham on Monday of this week. There was a man there hauling express who was using a car with 30,000 miles on it. They are busy tearing down the station along there. It seemed to me, in view of the very serious shortage of rubber, that if you have not pulled up the steel on these lines, it might be well to consider halting operations until we know how soon rubber is going to be available for vehicles to carry the express and freight that may be handled on these lines.

Mr. VAUGHAN: That was all gone into before that decision was made; and in a good many cases there is another railway not very far off. In some cases, of course, the highway would have to be used.

Mr. NICHOLSON: The rubber situation has changed considerably since the order was made that those lines should be abandoned.

Mr. VAUGHAN: That is true, but I do not think the rubber situation is much worse than the steel situation.

Mr. DONNELLY: Is there a shortage of steel?

Mr. VAUGHAN: Decidedly.

Mr. DONNELLY: We were told in the house yesterday that there was not.

Mr. VAUGHAN: Well, we would like to get some of it if it is available.

General

On June 18 the car ferry *Charlottetown* was lost offshore from Port Mouton, N.S., while proceeding to Saint John for annual drydocking. The vessel was the property of the Dominion, built in 1931, the funds for its construction having been provided by Parliamentary appropriations. The vessel was abandoned to the underwriters and the proceeds of insurance have been collected and remitted to the Receiver General. The service between Cape Tormentine and Borden is now being performed by the car ferry *Prince Edward Island*.

Last year's report referred to the keen desire of the company and its employees to serve the war effort in any direction. The report also indicated some of the special activities which had been undertaken. These activities have been enlarged and are being energetically prosecuted. The company has undertaken the construction of a number of freight vessels. National Railways Munitions Limited is already making deliveries from the new munitions shop at Point St. Charles.

The Canada Atlantic Transit Company, a system subsidiary operating freight vessels between Depot Harbour, Milwaukee and Chicago, transferred the steamers *Dalwarnic* and *Canatco* to the Canadian National West Indies service to replace vessels in the West Indies service transferred to service elsewhere.

The Chicago, New York & Boston Refrigerator Company, a system subsidiary operating a refrigerator car service for dairy products moving from the middle west, discontinued its separate operation at the end of the year. Its activities, cars and other property have been merged with those of the Grand Trunk Western Railroad.

Unemployment insurance came into effect in Canada on July 1, 1941. Under its provisions approximately 60,000 Canadian National employees are insured. The cost to the railway in 1942 will be approximately \$955,000 on the basis of the present act.

During the year orders in council were issued by the Government for the stabilization of wages and salaries, with provision for a cost-of-living bonus adjusted to the cost-of-living index. The bonus has been paid to railway employees in Canada effective from June 1 commencing (on a monthly basis) at the rate of \$8.36 per month, increased September 1 to \$13.87 per month, and again increased November 15 to \$15.82 per month. The cost to the railway in 1942 will be approximately \$15,750,000 on the basis of the 1941 number of employees and the bonus rate in effect at the close of that year.

Increased rates of pay were granted to United States railway employees effective September 1 by virtue of the United States railway labour media-

tion agreement. The employees in general received an increase of 9 cents per hour or \$18.36 per month, which was increased to 10 cents per hour or \$20.40 per month effective December 1. The cost to the railway in 1942 will be approximately \$2,570,000.

The CHAIRMAN: What is the significance of the reference to the Chicago, New York and Boston Refrigerator Company?

Mr. VAUGHAN: That was a separately operated company owned by the Grand Trunk Western Railway.

The CHAIRMAN: It is part of the system?

Mr. VAUGHAN: Yes, it is part of the system, but it was found to be more economical to wind the company up and merge it with the Grand Trunk Western Railway. In that way taxes and other expenses were saved.

Mr. NICHOLSON: I enquired regarding the policy of the railway with regard to the men in the protective service. Are we going to get any information this afternoon?

Mr. WALTON: I expect to have that information next week.

Mr. HAZEN: With regard to the car ferry *Charlottetown*, was it built by the government or by the railway company?

Mr. VAUGHAN: It was built with government funds.

Mr. HAZEN: It was operated—

Mr. VAUGHAN: It was operated by the railway, for the account of the government.

Mr. HAZEN: What has been the cost of operating it for the year?

Mr. VAUGHAN: I do not know whether we have any figures or not.

Mr. COOPER: In 1941 the deficit in the operation of this service was \$423,000.

Mr. HAZEN: In 1940—have you figures for the previous year?

Mr. COOPER: In 1940 it was \$460,000.

Mr. HAZEN: Is that the *Charlottetown* or the two boats?

Mr. COOPER: It is the two boats.

Mr. HAZEN: You have not a breakdown for the *Charlottetown*?

Mr. COOPER: No, —

Mr. HAZEN: For how many months in the year does the ferry operate?

Mr. VAUGHAN: It operates all the year round, every day.

Mr. HAZEN: Has a ferry been obtained to take the place of the *Charlottetown*?

Mr. VAUGHAN: No, there is a substitute boat, the *Prince Edward*. She is being used. She is a very good vessel and is doing the work satisfactorily. When she goes into drydock there is another vessel which we have in use in the Strait of Canso, which will perform the service.

Mr. HAZEN: Have any avenues been explored to obtain a new ferry to take its place?

Mr. VAUGHAN: Yes, many avenues have been explored but we have not been able to find any boat of a satisfactory kind that could be obtained.

Mr. HAZEN: Up to the present time you have no boat in view to take its place?

Mr. VAUGHAN: No, sir.

Mr. GRAY: How much was received from the underwriters for the *Charlottetown*?

Mr. COOPER: A million dollars less \$5,000 commission, net \$995,000.

Mr. HAZEN: What was the revenue in 1940 and 1941 for these two ferries?

Mr. COOPER: In 1941 the revenue was \$145,000.

Mr. HAZEN: That is for both boats?

Mr. COOPER: That is on the service.

Mr. HAZEN: The cost of the service.

Mr. COOPER: That was the revenue from the service; the previous year it was \$132,000.

Mr. JACKMAN: When you operate this service to P.E.I. the government pays you the total deficit?

Mr. COOPER: Yes, they meet the deficit.

Mr. JACKMAN: Do you get a management fee?

Mr. COOPER: We do not get anything.

Mr. JACKMAN: Do you operate it for them?

Mr. COOPER: We operate it with our organization as an agent for the government.

Mr. JACKMAN: In the summer time there is a tremendous jam to get onto Prince Edward Island during the peak of the season and to get from the island to the mainland, and people have to park all night to get in line so they will be sure to get across the next day. Of course, the traffic is exceptionally heavy at that particular time, but it should be borne in mind that it is impossible to get funds now to go to some of the eastern states in the summer time and there are many Canadians who may want to go to Prince Edward Island for their vacation, and if it is possible to get even temporary conveyances, such as barges which would be seaworthy, during the summer months, that might help a good deal.

Mr. VAUGHAN: We have looked into that thoroughly. The *Prince Edward* will be in use, and if the service warrants, one of the *Scotias* will be put in service. The automobile carrying capacity, of the *Prince Edward*, is being enlarged to a considerable extent.

Mr. LOCKHART: I see the cost of living bonus is \$15.82, is that not higher than in some of the departments of the government service?

Mr. VAUGHAN: No, it is simply in accordance with the rulings given by the Department of Labour at Ottawa.

Mr. LOCKHART: I have not seen any other as high as that.

Mr. VAUGHAN: This is strictly in accordance with the orders of the Department of Labour. The same applies to the Canadian Pacific Railway; they pay exactly the same as we do.

Outlook for 1942

The outlook for 1942 is for a further substantial increase in traffic. The directors expect the railway will again earn a moderate surplus over and above its fixed charges. It is difficult to estimate how much that surplus will be. The outlook must be viewed in the light of war conditions and with the realization that abrupt and far-reaching disturbances occur with startling rapidity.

Both management and employees realize fully the need for economy, and every effort will be made to secure the most favourable financial results consistent with the primary duty of furnishing prompt and efficient transportation service in the national war effort.

There is some shortage of labour, more particularly among the shop crafts. Shortages of material are bound to occur as the normal supplies are cut off or the available supplies are diverted to the fabrication of the munitions of war, but these difficulties should not be insurmountable. The relations between management and the employees are excellent and the railway and its equipment have been well maintained. When the need for efficient transportation

reached new high levels during 1941 the national railway system was found capable and competent to meet all demands. The demands in 1942 will be still more challenging but with the co-operation of shippers, passengers and government agencies, they will be met.

On July 23rd Mr. S. J. Hungerford resigned as President of the Canadian National Railways and as of July 24th Mr. R. C. Vaughan was appointed President and Chief Executive Officer. Mr. Hungerford remained a member of the Board of Directors and Chairman of the Board.

The directors take pleasure in recording their appreciation of the outstanding services rendered by the officers and employees during the eventful year under review.

For the Board of Directors,

Mr. HAZEN: May I ask if the cost of living bonus is applicable to all classes of employees?

Mr. VAUGHAN: No, it is only applicable to employees getting up to \$340 a month, up to the rank of foremen or under.

Mr. HAZEN: Does that include salaried employees and executives?

Mr. VAUGHAN: No, sir, our salaries are controlled at Ottawa.

Mr. HAZEN: It includes men who belong to the running trades.

Mr. VAUGHAN: Yes, men who belong to the running trades—yes, it includes all of them.

Mr. HAZEN: And does it include others as well?

Mr. VAUGHAN: Clerical staff, telegraph operators and men of that kind.

Mr. EMMERSON: It does not include certain classes of labour such as temporary labourers and extra gang labour, does it?

Mr. VAUGHAN: On that particular question there are some negotiations going on now in respect to the cost of living bonus for extra gang labourers, but they have not been brought to a conclusion.

Mr. HANSON: That would include section labourers?

Mr. VAUGHAN: Yes.

Mr. SISSONS: Mr. Chairman, there is one matter I would like to take up with the president. I communicated with him on the matter some time ago. It relates to the Northern Alberta Railway and the Alaska highway. The Northern Alberta Railways are owned jointly by the C.P.R. and the C.N.R.

Mr. VAUGHAN: Right.

Mr. SISSONS: Personally I am not very much enamoured of the joint ownership as I feel the company is geographically Canadian National territory and they should be the sole owner. There is one line leading into the Peace river country; that line is divided; and one portion runs south of the Peace river and the other portion runs north. The Alaska highway commences at a point north of the Peace river at Fort St. John. There is no connection between Fort St. John and the railway line north of the Peace river. Now, any traffic for the Alaska highway goes along the line south of the Peace river to Dawson Trail and then is transported fifty-five miles by road and across the Peace river by ferry to Fort St. John. I wrote both Mr. Vaughan and Sir Edward Beatty in March urging that the line from Hines creek should be extended to Fort St. John, a distance of some eighty-six miles, and Mr. Vaughan's reply was to this effect: There were three points; one, the scarcity of steel would prohibit the railway getting a priority rating for that steel which is required; second, they would not be able to construct it in time to be of assistance in the construction of the Alaska highway; and third, he thought they could render the best service by maintaining the present railway line in proper shape in order to handle the traffic. Now, with regard to the last point, I want to pay a compliment to the manner in which the C.N.R. and the C.P.R. have handled

that traffic in connection with the Alaska highway to date, and I think there is a story there which is just as impressive a story as was communicated yesterday to the committee by Mr. Ross.

I am not so persuaded by the argument that steel cannot be procured or that the road extension could not be completed in time to be of service. I have a lot of confidence that the Canadian National Railways engineers could put that road through in such a time that it would be of immense service not only in the operation of the Alaska highway, but in the construction of the highway; and I have reason to believe that while the American engineers who are on the job would not be prepared to urge any representation along those lines to the Canadian authorities or to the railway, they recognize that such an extension would be of immense benefit to them. Such an extension also would be of immense benefit after the war between Fort St. John and Hines Creek. One of the largest areas of arable land which exists in this Peace River country is there. Such a line was contemplated when the Northern Alberta Railways was incorporated in 1929. This is one of the extensions that the company was empowered to build. Nothing has been done since except all these surveys have been made, the detailed surveys have been completed. So it is not an extension whose use would cease with the war, and it has a very definite war use. Therefore I think the matter should not be allowed to drop and that the railway should at least communicate with the American sources and find out what service they think such an extension would be.

If I am assured by the President that the American authorities are not interested in this extension, well and good. At the present time all that I have in contemplation is the serving of the Alaska highway, to improve the job when the highway is completed from Edmonton to Fort St. John. It would mean the construction of new bridges across. Certainly it could be at least an alternative road whereby Fort St. John could be reached from the end of steel on the north part of the Peace River. For that reason I am putting it forward. I should like the Canadian National authorities to ascertain the feeling of the American authorities in connection with such an extension at this time.

Mr. VAUGHAN: We shall be glad to do that. I might say our engineers are in touch almost daily with the engineering officers of the American army in connection with various projects. So far as I know they have never approached us in regard to the construction of the line referred to. I would doubt if we could get authority from the government to build it. I would question very much if the Steel Controller would give us the steel. However, in reply to your question we shall be glad to pursue it. I do not know whether the U.S. authorities would build it or not or provide the steel.

Mr. SISSONS: I just wish to have that matter referred to because there is a very strong feeling with regard to it in that section of the country. Just this morning I received a resolution from the Associated Boards of Trade, north of the Peace River. The prayer of the resolution is this:—

Whereas, as a wartime measure, a highway known as the Alaska Highway is now under construction and difficulties exist between the present end of steel at Dawson Creek and its southern terminus at Fort St. John, due to ice and other adverse conditions which may isolate the road as long as three months in the year and:

Whereas an alternative route, without these drawbacks, is available from the end of steel at Hines Creek, which, if constructed, would be of great assistance to the American Engineers and ensure vital connection at all times:

Therefore this meeting urges the Dominion Government to take such action as would ensure the immediate extension of the Railway from Hines Creek, which has now become necessary from the standpoint of national security.

Anyone knowing the geography, as I believe the President does, certainly as Mr. Hungerford does, knows that the Alaska highway would be better served if there were certain extensions, and I think at the present time that is the whole governing factor. The whole governing factor at the present time is to see that the Alaska highway be made most effective.

Mr. VAUGHAN: We will ascertain the view of the United States government army officers. They have not approached us up to the present time on a proposition of that kind, so far as I know.

The CHAIRMAN: Shall we go on to page 10?

Mr. JACKMAN: May I ask a question in regard to the unemployment insurance fund? About how many employees have taken advantage of their right under that since the inauguration?

Mr. VAUGHAN: Is it mentioned in the report?

Mr. JACKMAN: It takes thirty weeks to qualify?

Mr. COOPER: I would not think many railway employees have become in need of unemployment benefits. I think they have all been fairly well continued in employment.

Mr. JACKMAN: Has the setting up of the fund, the inauguration of it by the government, had any effect at all on any other employee funds that you have in your system?

Mr. VAUGHAN: No, sir.

Mr. COOPER: They are entirely separate.

Mr. JACKMAN: They are entirely separate and have not reduced the obligation to pay into any other fund at all?

Mr. COOPER: No, sir.

Mr. JACKMAN: I notice you also say the cost-of-living bonus will cost you \$15,750,000, and that you expect that there would be a moderate surplus after all charges have been met, again next year. I presume the first four months result of this year indicates that you will be able to absorb the cost-of-living bonus and at least equal the profit of last year.

Mr. VAUGHAN: Yes, that is what we expect to do. You will note that between unemployment insurance and the cost-of-living bonus and the increased wages in the United States the additional expense involved is about \$20 million. That is the amount we will have to take care of this year. We believe we can do that and still show a moderate surplus.

Mr. JACKMAN: The first quarter indicates that?

Mr. VAUGHAN: I think I have the first quarter figures here. "To the end of March, operating revenues show an increase of \$14,900,000 over 1941, an increase of 23 per cent. The operating expenses show an increase of \$10,400,000, an increase of 19 per cent. Our net revenue therefor is \$4,500,000 better than it was in the first quarter of 1941. This increase in net revenue is after making still further provision for depreciation on equipment in view of the more intensive use. We are also doubling the provision for the amortization of war project expenditures."

Mr. EMMERSON: I notice you have 60,000 employees who are eligible for unemployment insurance. Does that mean there are 60,000 who are getting less than \$2,000 a year?

Mr. VAUGHAN: Yes, that figure was changed.

Mr. COOPER: It is still \$2,000.

Mr. VAUGHAN: There was an effort to increase the amount to \$2,500.

Mr. COOPER: Employees who normally receive less than \$2,000 a year, but who are presently receiving in excess of \$2,000, are deemed to be covered.

Mr. DONNELLY: That means you have about 29,000 who are getting more than \$2,000 a year.

Mr. COOPER: Including the United States, yes.

Mr. DONNELLY: Twenty-nine thousand five hundred.

Mr. COOPER: You have to deduct the U.S. employees in making that comparison.

Mr. DONNELLY: How many are they?

Mr. VAUGHAN: Under existing conditions, many men in the running trades, shopmen, are getting more than \$2,000 a year.

Mr. COOPER: Employees whose normal wage is less than \$2,000 are covered, even though presently they may be earning in excess of \$2,000. The government unemployment scheme does not apply generally to people receiving in excess of \$2,000.

The CHAIRMAN: Let us go on with the balance sheet.

Mr. VAUGHAN: Do you desire all this read, Mr. Chairman? Much of it has been covered already.

The CHAIRMAN: That is up to the committee. If it is read it will take up a month, and we have not a month to spare. I do not want to keep the committee from any indulgence in these figures. We can read these headings and allow part time for the consideration of them.

Mr. HANSON: As long as they are in the report I do not see the necessity of reading them.

The CHAIRMAN: We will read the headings.

Mr. ARMSTRONG:

CONSOLIDATED BALANCE SHEET

ASSETS				
<i>Investments:</i>				
Road and Equipment Property.....	\$1,872,761,878	21		
Improvements on Leased Property.....	4,410,972	78		
Miscellaneous Physical Property..	67,114,631	73	\$1,944,287,482	72
Sinking Funds:				
System Securities at par.....	\$	428,378	60	
Other Assets at cost.....		283,117	79	711,496 39
Deposits in lieu of Mortgaged Property Sold:				
System Securities at par.....	\$	1,966,500	00	
Other Assets at cost.....		2,448,581	72	4,455,081 72
Investments in Affiliated Companies.....			37,652,262	62
Other Investments:				
System Securities at par.....	\$	211,000	00	
Other Assets at cost.....		565,670	05	776.670 05
				\$1,987,882,993 50
<i>Current Assets:</i>				
Cash	\$	13,962,022	55	
Special deposits.....		8,066,947	57	
Bills Receivable.....		100,000	00	
Net Balances Receivable from Agents and Conductors.		11,336,107	83	
Miscellaneous Accounts Receivable.....		13,948,571	66	
Materials and Supplies.....		42,588,116	25	
Interest and Dividends Receivable.....		263,389	78	
Rent Receivable.....		141,649	25	
Other Current Assets.....		2,529,497	70	92,936,302 59
<i>Deferred Assets:</i>				
Working Fund Advances.....	\$	180,132	66	
C.N.R. Insurance Fund:				
System Securities at par.....	\$	11,157,749	92	
Other Assets at cost.....		923,719	77	12,081,469 69
Other Funds.....		554,723	25	
Other Deferred Assets.....		4,348,031	70	17,164,357 30
<i>Unadjusted Debits:</i>				
Rents and Insurance Premiums paid in advance.....	\$	176,935	24	
Discount on Capital Stock.....		189,500	00	
Discount on Funded Debt.....		10,095,536	28	
Other Unadjusted Debits.....		3,707,332	89	14,169,304 41
				<u>\$2,112,152,957 80</u>

AT 31ST DECEMBER, 1941

LIABILITIES

Stocks:

Capital Stocks of Subsidiary Companies owned by Public	\$	4,564,600	00
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Long Term Debt:

Funded Debt Unmatured.....		1,134,394,303	29
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Dominion of Canada (Accounts treated as assets in Public Accounts of Canada):

Loans	\$195,345,883	53	
Canadian Government Railways—Working Capital..	16,771,980	54	212,117,864 70

Current Liabilities:

Traffic and Car-Service Balances—Credit.....	\$	3,960,219	99
Audited Accounts and Wages Payable.....		12,948,958	73
Miscellaneous Accounts Payable.....		4,060,914	39
Interest Matured Unpaid.....		8,479,529	77
Unmatured Interest Accrued.....		9,219,053	87
Unmatured Rents Accrued.....		380,440	56
Accrued Tax Liability.....		1,924,863	32
Other Current Liabilities.....		2,526,350	16
			43,500,330 79

Deferred Liabilities.....

8,678,572 28

Unadjusted Credits and Reserves:

C.N.R. Insurance Reserve.....	\$	12,081,469	69
Accrued Depreciation.....		27,119,714	39
Other Unadjusted Credits and Reserves.....		6,519,740	39
			45,720,924 47

Dominion Government—Proprietor's Equity—(See Note)

Represented by:—

1,000,000 shares of no par value capital stock of Canadian National Railway Company issued in exchange for the residual value of Canadian Northern Capital stock.....	\$	18,000,000	00
5,000,000 shares of no par value capital stock issued by The Canadian National Railways Securities Trust to the Government in consideration for the transfer of securities, advances, claims for unpaid interest and collateral securities		267,283,019	32
Dominion Government Capital Expenditures for Canadian Government Railways.....		377,893,343	58
			663,176,362 90

Contingent Liabilities:

For major contingent liabilities, including pension plans, see page 21.

\$2,112,152,957 80

NOTE.—The Proprietor's Equity is included in the net debt of Canada and is disclosed in the historical record of Government assistance to railways as shown in the Public Accounts of Canada in accordance with The Canadian National Railways Capital Revision Act, 1937.

T. H. COOPER,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the companies comprising the Canadian National Railway System for the year ended the 31st December, 1941, and subject to our report to Parliament, we certify that, in our opinion, the above Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the System as at the 31st December, 1941, and that the relative Income and Profit and Loss Accounts for the year ended the 31st December, 1941, are correctly stated.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

10th March, 1942.

The CHAIRMAN: Any discussion?

Mr. ARMSTRONG: Then, page 12:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

YEAR ENDED 31ST DECEMBER, 1941

Credit Balance transferred from Income.....		\$ 5,438,960 78
Loss from Retired Road and Equipment—		
Debit.....		1,712,057 73
Miscellaneous—Credit.....		289,423 69
CASH SURPLUS.....		\$ 4,016,326 74
Capital Loss on line abandonments (Details		
on page 18).....	\$2,539,187 21	
Capital Gain on redemption of G.T.R. 4%		
Perpetual Debenture Stock.....	99,274 17	
		2,439,913 04
Net Gain credited to Proprietor's Equity..		\$ 1,576,413 70

DOMINION GOVERNMENT—PROPRIETOR'S EQUITY

	Balance at 31st Dec., 1940	Change during year	Balance at 31st Dec., 1941
Canadian National Rail- way Company, Capital Stock.....	\$ 18,000,000 00		\$ 18,000,000 00
The Canadian National Railways Securities Trust, Capital Stock..	265,706,605 62	\$1,576,413 70	267,283,019 32
Dominion Government Capital Expenditures for Canadian Govern- ment Railways.....	385,752,583 69	7,859,240 11	377,893,343 58
	<u>\$669,459,189 31</u>	<u>\$6,282,826 41</u>	<u>\$663,176,362 90</u>

The CHAIRMAN: What does the change with regard to the proprietor's equity signify, Mr. Armstrong?

Mr. COOPER: Well, in so far as the Canadian National Railways Securities Trust is concerned, details of the change of \$1,576,000 are indicated above.

The CHAIRMAN: That is a gain.

Mr. COOPER: A surplus for the year, yes. It is an improvement in the proprietor's equity. It is comprised of the cash surplus of \$4,016,000. From that was deducted certain capital losses and line abandonments which are detailed on page 18, amounting to \$2,539,000; capital gain on redemption of the Grand Trunk 4 per cent debenture stock of \$99,000. These altogether make up the amount of \$1,576,000, added to proprietor's equity in respect of the C.N. Securities Trust. And in respect of the Dominion Government's capital expenditures a number of adjustments were made. The details of them, are shown on page 18. They amount to \$7,859,000.

Mr. ARMSTRONG: Then we come to page 13 which is headed:

CONSOLIDATED INCOME ACCOUNT

	Year 1941	Year 1940
Railway Operating Revenues.....	\$304,376,778 12	\$247,527,224 81
Railway Operating Expenses.....	237,768,437 13	202,519,812 88
Net Revenue from Railway Operations	\$ 66,608,340 99	\$ 45,007,411 93
Railway Tax Accruals.....	6,926,512 63	6,245,955 70
Railway Operating Income.....	\$ 59,681,828 36	\$ 38,761,456 23
Rent from Locomotives.....	114,457 21	99,470 71
Rent from Passenger-Train Cars.....	222,056 70	241,229 85
Rent from Floating Equipment.....	466 31	1,235 99
Rent from Work Equipment.....	168,327 51	152,469 06
Joint Facility Rent Income.....	1,677,688 15	1,634,640 82
Hire of Freight Cars—Debit Balance....	3,460,502 17	2,210,844 87
Rent for Locomotives.....	32,450 19	32,819 76
Rent for Passenger-Train Cars.....	392,130 23	355,611 58
Rent for Floating Equipment.....	68,283 58	68,189 53
Rent for Work Equipment.....	21,623 27	26,864 86
Joint Facility Rents—Debit.....	2,263,257 44	2,231,764 12
Net Railway Operating Income.....	\$ 55,626,577 36	\$ 35,964,407 94
Revenues from Hotel Operations.....	4,467,078 53	3,936,313 26
Expenses of Hotel Operations.....	3,733,762 27	3,304,806 91
Taxes on Hotel Property.....	141,815 55	129,320 28
Net Hotel Operating Income.....	\$ 591,500 71	\$ 502,186 07
Income from Lease of Road and Equipment	70,903 32	74,144 94
Miscellaneous Rent Income.....	792,089 48	905,144 90
Miscellaneous Non-Transportation Property —Credit.....	292,654 63	108,837 91
Dividend Income.....	550,072 00	549,037 65
Income from Funded Securities.....	1,944,841 41	1,858,535 52
Income from Unfunded Securities and Accounts.....	232,495 73	429,756 89
Income from Sinking and Other Reserve Funds.....	156,311 39	155,753 63
Miscellaneous Income.....	1,293,854 96	1,588,663 71
Miscellaneous Rents—Debit.....	557,368 63	552,935 01
Miscellaneous Tax Accruals.....	90,068 01	86,299 16
Separately Operated Properties—Loss....	360,935 35	1,529,406 12
Miscellaneous Income Charges and Appropria- tions.....	1,941,613 79	2,047,110 98
Income Available for Fixed Charges..	\$ 58,601,315 21	\$ 37,920,717 89
Rent for Leased Roads and Equipment....	1,499,376 48	1,467,326 76
Interest on Funded Debt—Public.....	44,698,226 88	48,701,523 73
Interest on Government Loans.....	5,646,762 24	1,737,963 50
Interest on Unfunded Debt.....	145,202 57	297,390 31
Amortization of Discount on Funded Debt.	1,172,786 26	1,101,083 25
Total Fixed Charges.....	\$ 53,162,354 43	\$ 53,305,287 55
Income Balance transferred to Profit and Loss.....	\$ 5,438,960 78	\$ 15,384,569 66

Mr. JACKMAN: Might I just ask what is the accounting implication of the words “unadjusted credit in reserve”, on the liability side of the balance sheet? You mean you have not set them up against specific items. It is the fourth heading down—or the fifth, or the sixth—“unadjusted credits”. What is the significance of that word “unadjusted”?

Mr. COOPER: Well, reserves or suspense accounts which are awaiting some event.

Mr. JACKMAN: Not contingencies, but you have not set them off against specific items to which they referred.

Mr. COOPER: Well, take the first item there, Canadian National Insurance reserve, \$12,000,000; that speaks for itself. Then you have, accrued depreciation, \$27,000,000; that speaks for itself. Then you have certain unadjusted credits and reserves. I would be very pleased to read out to you the different items if you wish.

Mr. JACKMAN: The word "unadjusted" is not given its ordinary connotation; the amounts are not final, as far as the books are concerned now.

Mr. COOPER: Let us take an example; suppose we have a contract with a drawback, an amount held back on the contractor.

Mr. JACKMAN: Yes.

Mr. COOPER: Such an item would be carried in that account.

Mr. JACKMAN: The contractor's drawback is a contingency; would that be a contingent account rather than an unadjusted account?

Mr. COOPER: Well, I have four pages of these items.

Mr. JACKMAN: I don't think you need to read them all.

Mr. COOPER: I will just give you one of them; accounts payable suspense—that would represent charges which have been set up in our expense or investment account, as the case may be, for which invoices have not been received. Then there is capital expenditures, expense, operating accruals; revenue accruals; revenue suspense items; sales tax suspense—and so on.

Mr. JACKMAN: What is unadjusted about an accrued depreciation of \$27,000,000?

Mr. COOPER: The word itself, of course, is taken from the Inter-state Commerce Commission Regulations for balance sheet accounting. I think none of these accounts is in the final stage; they still have to be disposed of. I think in that sense they are awaiting adjustment; therefore, they are unadjusted.

Mr. JACKMAN: I do not want to open up the subject again, but I do want to find out about accrued depreciation; which I presume is off rolling stock, \$27,119,714; I would like to find out how that compares with the rolling stock depreciation reserve on the books of the C.P.R. which amount to \$72,422,242. I am not asking for any comment, I just want to see it; that is the only reason I have for asking that it be put on the record.

Mr. COOPER: Since you raised it I think I might comment on it. The Canadian Pacific did not commence depreciation accounting any sooner than we did. They commenced depreciation accounting in 1940 the same as we did. Now, in the earlier years the Canadian Pacific had made improvements to their rolling stock which had been charged to operating expenses.

Mr. JACKMAN: Yes.

Mr. COOPER: I think it was in the year 1940 they took a large amount into their depreciation reserve, if I remember it correctly, at a figure of some \$48,000,000. They charged that amount to their investment account and credited it to their depreciation reserve. That is why their reserve is as high as it is to-day.

Mr. JACKMAN: It might be a help to us in understanding these accounts if they had a uniform accounting system for both railways. It seems to me most difficult for the ordinary citizen to be able to compare the two statements when you both follow your own line of accounting practice; and there seems to be a divergence between their system and that used by the I.C.C. in many respects. Your practice seems to follow that laid down by the I.C.C.

Mr. COOPER: The Canadian National accounts are set up in accordance with the Inter-state Commerce Commission accounting regulations.

Mr. JACKMAN: The C.P.R. follows its own procedure in most cases, does it?

Mr. COOPER: I prefer not to say what the Canadian Pacific do, because I have no direct personal knowledge of it; but I do know this, that when we proposed that there be a uniform accounting on the Canadian railways our proposal was that the railways accept in principle the Inter-state Commerce Commission regulations so that we would have comparability between our lines and between the lines operating in the United States. The Canadian Pacific would not go along with the proposal.

Mr. Ross: When was the proposal made?

Mr. COOPER: Two or three years ago.

Mr. Ross: Three years ago?

Mr. COOPER: The matter was brought up when Mr. Howe was Minister of Transport. He convened a committee to investigate the possibility of uniform accounting regulations for Canadian railways, but the committee could not bring in a unanimous recommendation, and the matter was dropped.

Mr. Ross: And it has not been taken up again since?

Mr. COOPER: No, and I hope it won't be taken up during the war. We spent about 12 months and did a tremendous amount of work and with a large measure of agreement between us; but on the basic principle that the Canadian railways follow the I.C.C. accounting regulations the Canadian Pacific refused to go along.

Mr. ARMSTRONG: Then we come to page 14 which shows:

OPERATING REVENUES

	Year 1941	Year 1940
Freight	\$236,519,309 12	\$191,433,308 13
Maritime Rates Reduction.....	3,072,978 27	3,128,900 71
Passenger	31,893,884 97	21,702,046 30
Baggage	101,808 06	71,067 56
Sleeping Car.....	1,952,632 39	1,315,664 53
Parlour and Chair Car.....	189,417 11	148,618 43
Mail	3,822,499 58	3,584,159 20
Railway Express Agency.....	334,084 04	504,320 48
Express	11,391,137 28	13,602,893 29
Other Passenger-Train.....	15,749 17	40,574 61
Milk	306,386 71	283,245 17
Switching	2,901,404 95	2,468,369 60
Water Transfers.....	156,087 81	193,154 03
Dining and Buffet.....	2,146,514 73	1,141,737 39
Restaurants	20,910 50	16,102 30
Station, Train and Boat Privileges.....	180,287 26	110,281 66
Parcel Room.....	56,810 44	38,232 49
Storage—Freight	164,632 67	139,220 48
Storage—Baggage	25,106 27	16,762 43
Demurrage	965,294 04	427,462 85
Telegraph and Telephone.....	11,449 17	10,345 23
Telegraph—Commercial	5,147,064 97	4,427,843 91
Grain Elevator.....	494,572 15	286,611 44
Rents of Buildings and Other Property....	496,128 28	449,968 29
Miscellaneous	1,641,698 42	1,660,500 72
Joint Facility—Credit.....	466,851 53	409,006 51
Joint Facility—Debit.....	97,920 87	83,172 93
	<u>\$304,376,778 12</u>	<u>\$247,527,224 81</u>

SUMMARY OF OPERATING EXPENSES

Maintenance of Way and Structures.....	\$ 47,072,687 81	\$ 40,002,420 65
Maintenance of Equipment.....	55,148,687 84	48,126,387 67
Traffic	5,306,329 32	5,148,990 90
Transportation	118,081,059 98	98,660,172 14
Miscellaneous Operations.....	2,706,792 26	1,646,918 99
General	9,859,802 21	9,317,273 07
Transportation for Investment—Credit...	406,922 29	382,350 54
	<u>\$237,768,437 13</u>	<u>\$202,519,812 88</u>

Mr. NICHOLSON: Just in connection with this item of operating revenues I have a matter which I would like to bring up. It is in connection with a man who at present is suffering from cancer and who probably will not be able to return to work. He was employed by the Canadian National Railways in the capacity of an express employee for some 36 years and the amount of allowance he is receiving at the present time is \$25; although I am given to understand that under the regulations he is entitled to the benefit of a gratuitous or compassionate consideration which would bring that amount up to \$28.50. I would like to have some information from the railway officials as to what could be done for this man.

Mr. JACKMAN: Mr. Chairman, I rise to a point of order: I think a matter of that kind does not concern the general administration of the railway. Surely there is another place and time where it might be brought up without occupying the time of the whole committee.

The CHAIRMAN: I am inclined to think that is a matter which should be taken up and discussed by the member with the management.

Mr. VAUGHAN: If the member would desire to give us the particulars we will be glad to get all the information we may have on the case for him. We have a great many of these cases brought to our attention and we usually find there is no cause for complaint.

Mr. MAYBANK: I have a similar matter which I intend to take up with Mr. Walton and I may say that if Mr. Walton and I can't get it cleared up then at the appropriate time it is my purpose to bring it to the attention of the committee. As it relates to a question of policy I think the same observation would apply in this case. However, I feel pretty sure that when I lay the particulars before the officers of the railway they will be able to deal with the matter satisfactorily.

Mr. NICHOLSON: Apparently this man has been trying for some time to get an adjustment.

Mr. VAUGHAN: If you give us his name we will be very glad to look up the case and to give you personally a full report on the whole situation.

Mr. DONNELLY: I have some questions that I wanted to ask in regard to these grain elevators, but I have handed in the questions and it will be all right to let this item stand and we can refer back to it again on Monday. That will be satisfactory to me.

Mr. NICHOLSON: Under the heading of telegraphs I have another point in connection with cablegrams coming from men overseas over C.P.R. lines and being mailed from Regina, to points that are served by the Canadian National Railways. I have taken the matter up with the Canadian National here in the city and they say they have not been able to get any understanding to have cables filed in the old country post offices by the Canadian National; have you any statement as to that?

Mr. VAUGHAN: We have had some considerable discussion of the matter with the Canadian Pacific Railway, and I think the understanding we arrived at will dispose of the matter.

Mr. NICHOLSON: These are still being sent by mail to Regina.

Mr. VAUGHAN: I do not know the particulars about that, but I will be glad to get a statement for you on the whole situation.

Mr. NICHOLSON: Could we have it next week?

Mr. VAUGHAN: I will try to have it for you next week, yes.

The CHAIRMAN: I think we have page 15 now.

Mr. HAZEN: With regard to page 14, operating revenues, if there is any statement under operating expenses through which you can trace specific revenues, take, for instance, mail; or dining car and buffet, or let us say chair cars—these different items—there is nothing to show just what the expenses were on the dining cars, or for the carrying of the mail.

Mr. VAUGHAN: Mr. Cooper, have we separate accounts for those?

Mr. COOPER: No, we do not break down our costs. We have no costing system by services in railway accounting.

The CHAIRMAN: Any further discussion? Let us go on to page 16.

Mr. ARMSTRONG: Page 15 shows:

MAINTENANCE OF WAY AND STRUCTURES EXPENSES

	Year 1941	Year 1940
Superintendence	\$ 3,133,583 29	\$ 2,934,493 91
Roadway Maintenance.....	5,689,751 33	4,899,508 56
Tunnels and Subways.....	169,863 42	200,345 60
Bridges, Trestles and Culverts.....	1,878,062 78	1,581,466 28
Ties	4,813,150 98	4,576,869 90
Rails	2,749,468 36	2,075,036 71
Other Track Material.....	2,321,715 90	2,031,066 18
Ballast	995,211 33	878,764 90
Track Laying and Surfacing.....	12,326,465 99	10,463,337 61
Fences, Snowsheds and Signs.....	524,558 77	511,858 48
Station and Office Buildings.....	2,472,627 47	1,625,982 53
Roadway Buildings.....	214,790 03	212,616 30
Water Stations	497,285 22	470,191 78
Fuel Stations	251,986 19	175,871 71
Shops and Enginehouses.....	1,683,645 30	1,347,936 33
Grain Elevators.....	39,368 80	34,103 47
Storage Warehouses.....	—	44 66
Wharves and Docks.....	169,264 50	210,925 06
Coal and Ore Wharves.....	3,265 42	25 03
Telegraph and Telephone Lines.....	874,563 28	836,058 51
Telegraph—Commercial	890,137 14	876,743 54
Signals and Interlockers.....	794,063 03	633,419 24
Power Plants.....	10,447 46	7,621 91
Power Transmission Systems.....	119,214 78	104,063 82
Miscellaneous Structures.....	2,242 06	1,424 22
Roadway Machines.....	410,168 02	369,342 76
Small Tools and Supplies.....	668,056 19	599,642 30
Removing Snow, Ice and Sand.....	1,884,642 87	1,784,900 12
Public Improvements—Maintenance.....	285,200 57	266,821 69
Injuries to Persons.....	388,428 58	321,720 48
Insurance	21,208 10	21,827 09
Stationery and Printing.....	65,002 72	58,968 11
Other Expenses.....	24,703 66	29,275 89
Maintaining Joint Tracks, Yards and Other Facilities—Debit	792,881 62	446,900 65
Maintaining Joint Tracks, Yards and Other Facilities—Credit	1,212,378 08	1,128,504 41
Right of Way Expenses.....	39,506 75	39,930 93
Depreciation—U.S. Lines only.....	27,537 24	30,128 74
Protective Services.....	552,996 74	471,690 06
Amortization of War Projects.....	500,000 00	—
	<u>\$47,072,687 81</u>	<u>\$40,002,420 65</u>

MAINTENANCE OF EQUIPMENT EXPENSES

Superintendence	\$ 1,416,631 31	\$ 1,343,147 15
Shop Machinery.....	1,479,727 38	1,486,210 62
Power Plant Machinery.....	200,477 75	139,258 69
Steam Locomotives—Repairs.....	17,195,264 23	15,119,280 72
Other Locomotives—Repairs.....	83,508 30	77,025 33
Freight-Train Cars—Repairs.....	12,854,974 92	10,418,520 23
Passenger-Train Cars—Repairs.....	6,082,296 16	6,045,326 37
Floating Equipment—Repairs.....	126,725 88	199,541 50
Work Equipment—Repairs.....	1,377,955 76	1,274,483 30
Miscellaneous Equipment—Repairs and Retirements	277,277 14	293,065 18
Equipment Retirements (Demolition Cost)	87,321 25	132,267 89
Equipment—Depreciation	13,591,187 71	11,262,523 64
Injuries to Persons.....	284,635 05	217,356 23
Insurance	17,846 77	12,194 42
Stationery and Printing.....	53,613 50	47,203 47
Other Expenses	2,029 68	3,290 25
Maintaining Joint Equipment—Debit.....	180,779 82	202,808 63
Maintaining Joint Equipment—Credit....	163,564 77	147,115 95
	<u>\$ 55,148,687 84</u>	<u>\$ 48,126,387 67</u>

STANDING COMMITTEE

TRAFFIC EXPENSES

	Year 1941	Year 1940
Superintendence.....	\$ 1,760,810 53	\$ 1,668,406 62
Outside Agencies.....	2,341,010 02	2,249,590 18
Advertising.....	555,327 47	629,367 02
Traffic Associations.....	101,419 10	90,598 20
Stationery and Printing.....	292,139 84	267,109 68
Other Expenses.....	964 40	1,110 53
Industrial Bureau.....	83,830 06	74,289 85
Colonization, Agriculture and Natural Resources.....	172,756 70	168,518 82
	<u>\$ 5,306,329 32</u>	<u>\$ 5,148,990 90</u>

TRANSPORTATION EXPENSES

Superintendence.....	\$ 3,191,034 94	\$ 2,893,181 33
Dispatching Trains.....	1,511,893 05	1,306,324 85
Station Employees.....	16,846,813 50	14,671,603 66
Weighing, Inspection and Demurrage Bureaus.....	80,923 25	74,576 63
Station Supplies and Expenses.....	1,291,513 61	1,215,724 54
Yardmasters and Yard Clerks.....	2,915,588 97	2,438,661 37
Yard Conductors and Brakemen.....	6,180,904 23	4,898,263 28
Yard Switch and Signal Tenders.....	572,516 38	508,231 65
Yard Enginemen.....	4,312,579 58	3,446,456 84
Yard Motormen.....	90,644 53	82,218 87
Yard Switching Fuel.....	4,219,156 05	3,252,464 28
Yard Switching Power Produced.....	9,941 00	10,186 35
Yard Switching Power Purchased.....	70,109 73	61,058 87
Water for Yard Locomotives.....	190,280 12	168,080 18
Lubricants for Yard Locomotives.....	56,871 08	42,681 54
Other Supplies for Yard Locomotives.....	39,446 72	30,113 88
Enginehouse Expenses—Yard.....	1,269,319 52	1,108,105 37
Yard Supplies and Expenses.....	142,379 35	125,408 82
Operating Joint Yards and Terminals— Debit.....	1,098,949 95	1,028,211 30
Operating Joint Yards and Terminals— Credit.....	1,515,609 34	1,303,939 84
Train Enginemen.....	11,672,320 18	9,660,547 54
Train Motormen.....	107,367 27	109,278 78
Train Fuel.....	21,618,816 11	17,211,615 93
Train Power Produced.....	11,667 11	10,111 47
Train Power Purchased.....	36,374 39	33,599 00
Water for Train Locomotives.....	1,091,892 42	965,496 11
Lubricants for Train Locomotives.....	416,321 37	343,823 71
Other Supplies for Train Locomotives.....	209,736 58	162,474 10
Enginehouse Expenses—Train.....	3,705,103 92	3,176,712 10
Trainmen.....	12,922,247 57	10,740,417 17
Train Supplies and Expenses.....	6,738,507 21	5,554,315 65
Operating Sleeping Cars.....	1,123,946 48	851,127 50
Signal and Interlocker Operation.....	424,623 11	411,155 10
Crossing Protection.....	636,082 15	574,426 76
Drawbridge Operation.....	105,818 96	96,715 58
Telegraph and Telephone Operation.....	307,926 56	266,915 84
Telegraph—Commercial.....	3,983,495 16	3,480,061 54
Operating Floating Equipment.....	790,564 10	693,564 89
Express.....	5,818,426 24	5,262,063 93
Stationery and Printing.....	570,832 15	499,322 77
Other Expenses.....	911,016 42	592,503 68
Operating Joint Tracks and Facilities— Debit.....	683,697 36	638,069 13
Operating Joint Tracks and Facilities— Credit.....	423,642 77	373,893 54
Insurance.....	11,209 52	12,714 93
Clearing Wrecks.....	285,103 85	212,581 70
Damage to Property.....	35,204 05	35,502 24
Damage to Live Stock on Right-of-Way...	41,474 68	36,709 46
Loss and Damage—Freight.....	745,929 02	587,417 23
Loss and Damage—Baggage.....	2,928 01	2,068 57
Injuries to Persons.....	920,814 58	755,139 50
	<u>\$118,081,059 98</u>	<u>\$ 98,660,172 14</u>

Mr. HAZEN: Might I refer to this just a moment more: do you mean by that that you cannot take any one of these items here—dining car—buffet—do you know whether or not you make a profit or a loss on your dining car service?

Mr. VAUGHAN: We know we make very substantial losses on them.

Mr. HAZEN: You know that, but you cannot say how much. Your system of bookkeeping does not show that?

Mr. VAUGHAN: That might probably be broken down but it would be a difficult thing to do because it is almost impossible to separate the cost of maintenance of equipment; the cost of hauling cars and items of that kind.

Mr. WALTON: There is an over-lapping of expenses to different parts of the service. You cannot just allocate expenses to dining cars. Diners and sleepers and certain other services are dove-tailed in. You cannot just pick them out and say that much money is applicable to that particular thing. That is not possible because they do necessarily over-lap.

Mr. HAZEN: Take parlor and chair cars. You have the revenue for that. Is that operated at a loss?

Mr. VAUGHAN: Probably it would be operated at a loss if we took into account certain expenses—the cost of the cars, depreciation of equipment, repairs to equipment and everything of that kind.

Mr. HAZEN: What would you say as to sleeping cars? Are they operated at a loss or a profit?

Mr. VAUGHAN: Sleeping cars, so far as revenue taken in and expenses going out are concerned, exclusive of interest and depreciation, do not lose money.

The CHAIRMAN: Not even considering the haulage?

Mr. VAUGHAN: On some lines they would lose money. But taking them in the balance, if we do not take into account interest and depreciation, sleeping cars about break even.

Mr. JACKMAN: Have you made any application for an increase in rates such as the American railroads have?

Mr. VAUGHAN: We have not made application for a general increase in rates such as the American railroads did. Before they got their increase in rates. Average rate per ton mile was already lower than theirs. They have had a recent increase of about 6 per cent in their freight rates and about 10 per cent in their passenger rates. We made an application for an adjustment on export rates so that our rates would conform with the export rates in the United States.

Mr. JACKMAN: Of course, your American lines get the American increase.

Mr. VAUGHAN: They get the proportion they are entitled to.

Mr. JACKMAN: Do the same reasons which they used to get their increase not apply with equal force in Canada? Or does the price ceiling hold you down?

Mr. VAUGHAN: The price ceiling will not permit any increase in rates, notwithstanding the increase in expenses.

Mr. JACKMAN: But even before November, when the price ceiling came in, you had not thought it necessary to make application to get higher rates?

Mr. VAUGHAN: We had not done it. Of course, if our expenses keep on increasing, we may have to take that matter into consideration; but we have not given it any thought as yet.

Mr. NICHOLSON: How do your rates for chair car accommodation compare with the American rates?

Mr. VAUGHAN: They are approximately on the same basis, except that with the increase they have recently obtained it will probably make their rates higher than ours.

Mr. JACKMAN: Notwithstanding the fact that the hotels showed a net operating income of \$591,500, there is no reasonable expectation that in ordinary times, when war business does not obtain, the hotels will show even an operating surplus, or is there?

Mr. VAUGHAN: Before the war we were, I think doing a little better than breaking even in the operation of our hotels. The Chateau Laurier was making better than operating expenses before the war. One or two of our other hotels were also doing that. We do not expect we will ever make any substantial sum of money on our hotels.

Mr. JACKMAN: I might say that some of the patrons of the Chateau Laurier have told me that the prices of many things there have increased since the ceiling went in. I do not make it an issue at all. That was their impression. Whether that is so or not, I do not know.

Mr. VAUGHAN: The cost of services is controlled by the price control board.

Mr. ROSS: What items did they refer to, Mr. Jackman?

Mr. JACKMAN: Food; the grill and other places.

Mr. MAYBANK: Have you ever made an enquiry into a complete change of a dining car system? Have you considered putting in a lunch counter service and cutting out the diner altogether?

Mr. VAUGHAN: That matter has been considered many times, Mr. Maybank. At the present time we are reconstructing some cars in our shops and making them into restaurant cars which will be an innovation here. That will provide a cheaper form of service, and we will know better, after we have those cars in service some time, how they will go.

Mr. MAYBANK: You are building some few or several now?

Mr. VAUGHAN: I think seven or eight.

Mr. WALTON: Eight. They are not being built new.

Mr. VAUGHAN: They are not being built new. They are some cars that are being remodelled.

Mr. MAYBANK: What is your intention as to the place you are going to use them?

Mr. WALTON: We have not definitely decided what lines they will be used on. Some may be used on the Scotian between Montreal and Halifax, and possibly on the second train in the west. We have not made a final allocation yet.

Mr. MAYBANK: I suppose you will switch them from place to place.

Mr. VAUGHAN: Yes, to try them out and see what the reaction to them will be.

Mr. MAYBANK: When they go on, what do you intend to do? I suppose where you have a diner or buffet on those now you will cut them out and substitute these, will you?

Mr. WALTON: Yes; unless on certain trains, of which we have had a few in the last year or so, where more than one car is needed, in which case we might have one of the conventional diners and one of the new ones and give a choice.

Mr. MAYBANK: How long will it be before you will be doing that?

Mr. VAUGHAN: In the next few weeks we will have the first of these cars out.

The CHAIRMAN: Page 16. Page 17.

TRAFFIC EXPENSES

	Year 1941	Year 1940
Superintendence	\$ 1,760,810 53	\$ 1,668,406 62
Outside Agencies.....	2,341,010 02	2,249,590 18
Advertising	555,327 47	629,367 02
Traffic Associations	101,419 10	90,598 20
Stationery and Printing.....	292,139 84	267,109 68
Other Expenses.....	964 40	1,110 53
Industrial Bureau	83,830 06	74,289 85
Colonization, Agriculture and Natural Resources	172,756 70	168,518 82
	<u>\$ 5,306,329 32</u>	<u>\$ 5,148,990 90</u>

TRANSPORTATION EXPENSES

Superintendence	\$ 3,191,034 94	\$ 2,893,181 33
Dispatching Trains.....	1,511,893 05	1,306,324 85
Station Employees	16,846,813 50	14,671,603 66
Weighing, Inspection and Demurrage Bureaus	80,923 25	74,576 63
Station Supplies and Expenses.....	1,291,513 61	1,215,724 54
Yardmasters and Yard Clerks.....	2,915,588 97	2,438,661 37
Yard Conductors and Brakemen.....	6,180,904 23	4,898,263 28
Yard Switch and Signal Tenders.....	572,516 38	508,231 65
Yard Enginemen	4,312,579 58	3,446,456 84
Yard Motormen	90,644 53	82,218 87
Yard Switching Fuel	4,219,156 05	3,252,464 28
Yard Switching Power Produced.....	9,941 00	10,186 35
Yard Switching Power Purchased	70,109 73	61,058 87
Water for Yard Locomotives.....	190,280 12	168,080 18
Lubricants for Yard Locomotives.....	56,871 08	42,681 54
Other Supplies for Yard Locomotives....	39,446 72	30,113 88
Enginehouse Expenses—Yard.....	1,269,319 52	1,108,105 37
Yard Supplies and Expenses.....	142,379 35	125,408 82
Operating Joint Yards and Terminals—Debit	1,098,949 95	1,028,211 30
Operating Joint Yards and Terminals—Credit	1,515,609 34	1,303,939 84
Train Enginemen	11,672,320 18	9,660,547 54
Train Motormen	107,367 27	109,278 78
Train Fuel	21,618,816 11	17,211,615 93
Train Power Produced	11,667 11	10,111 47
Train Power Purchased.....	36,374 39	33,599 00
Water for Train Locomotives.....	1,091,892 42	965,496 11
Lubricants for Train Locomotives.....	416,321 37	343,823 71
Other Supplies for Train Locomotives....	209,736 58	162,474 10
Enginehouse Expenses—Train	3,705,103 92	3,176,712 10
Trainmen	12,922,247 57	10,740,417 17
Train Supplies and Expenses.....	6,738,507 21	5,554,315 65
Operating Sleeping Cars.....	1,123,946 48	851,127 50
Signal and Interlocker Operation.....	424,623 11	411,155 10
Crossing Protection.....	636,082 15	574,426 76
Drawbridge Operation.....	105,818 96	96,715 58
Telegraph and Telephone Operation.....	307,926 56	266,915 84
Telegraph—Commercial	3,983,495 16	3,480,061 54
Operating Floating Equipment.....	790,564 10	693,564 89
Express	5,818,426 24	5,262,063 93
Stationery and Printing.....	570,832 15	499,322 77
Other Expenses.....	911,016 42	592,503 68
Operating Joint Tracks and Facilities—Debit	683,697 36	638,069 13
Operating Joint Tracks and Facilities—Credit	423,642 77	373,893 54
Insurance	11,209 52	12,714 93
Clearing Wrecks	285,103 85	212,581 70
Damage to Property.....	35,204 05	35,502 24
Damage to Live Stock on Right-of-Way..	41,474 68	36,709 46
Loss and Damage—Freight.....	745,929 02	587,417 23
Loss and Damage—Baggage	2,928 01	2,068 57
Injuries to Persons.....	920,814 58	755,139 50
	<u>\$118,081,059 98</u>	<u>\$ 98,660,172 14</u>

STANDING COMMITTEE

MISCELLANEOUS OPERATING EXPENSES

	Year 1941	Year 1940
Dining and Buffet Service.....	\$2,499,013 24	\$1,490,013 44
Restaurants.....	20,045 54	13,934 21
Grain Elevators.....	148,252 84	105,844 65
Other Miscellaneous Operations.....	39,480 64	37,126 69
	<u>\$2,706,792 26</u>	<u>\$1,646,918 99</u>

GENERAL EXPENSES

Salaries and Expenses of General Officers.....	\$ 432,387 95	\$ 414,767 33
Salaries and Expenses of Clerks and Attendants	3,651,359 32	3,420,456 76
General Office Supplies and Expenses.....	225,828 74	209,021 70
Law Expenses.....	345,948 67	368,738 54
Relief Department Expenses.....	27,500 00	27,500 00
Pensions.....	4,731,910 67	4,468,736 66
Stationery and Printing.....	164,584 22	152,323 10
Valuation Expenses.....	11,310 38	11,134 01
Other Expenses.....	288,168 13	254,718 21
General Joint Facilities—Debit.....	38,996 02	32,214 01
General Joint Facilities—Credit.....	58,191 89	42,337 25
	<u>\$9,859,802 21</u>	<u>\$9,317,273 07</u>

Mr. ARMSTRONG: Page 18 is the property investment account.

Mr. JACKMAN: Not too fast, please.

PROPERTY INVESTMENT ACCOUNT

Balance at 1st January, 1941..... \$1,940,923,424 91
Expenditures, Year 1941:

Road:

Line Diversions.....	\$ 270,289 44
Montreal Terminal Development, Chapter 12, 1929....	3,011,780 94
Salvage from Line Abandonments, etc.....	749,551 26
Rails and Fastenings.....	601,364 78
Tie Plates and Rail Anchors.....	1,101,565 03
Ties—Cost of Treating.....	1,177,305 56
Ballast	199,150 82
Widening Cuts and Fills and Scaling Rock Cuts.....	39,003 74
Ditching, Drainage and Sewers.....	111,042 90
Large Freight Terminals.....	502,005 48
Large Passenger Terminals.....	31,068 30
Yard Tracks and Sidings.....	1,750,106 35
Roadway Machines	134,218 12
Bridges, Trestles and Culverts.....	625,743 93
Crossing Protection, Including Subways.....	120,565 58
Stations and Station Facilities.....	37,558 20
Shops, Enginehouses and Machinery.....	1,154,378 89
Docks and Wharves.....	55,563 44
Signals and Interlockers.....	1,404,816 43
Telegraphs—Railway	88,758 01
Telegraphs—Commercial	344,895 96
Stores Department, Building and Equipment.....	39,104 60
Assessments for Public Improvements.....	70,003 63
Land	374,566 11
General Additions and Betterments.....	713,346 50
Total	<u>\$12,273,275 98</u>

Equipment:

Equipment Purchased or Built.....	\$ 6,751,629 21
Equipment Retired.....	3,135,087 17
General Betterments to Equipment.....	345,847 93
Equipment Conversions and Transfers.....	843,930 34
Express and Miscellaneous Equipment.....	69,611 05
Total	<u>\$ 3,188,070 68</u>

Hotels \$ 110,097 10

Separately Operated Properties..... \$ 1,808,958 63

Net Additions and Betterments..... 13,762,485 13
 Transfers Affecting Proprietor's Equity..... 10,398,427 32

Balance at 31st December, 1941..... \$1,944,287,482 72

TRANSFERS DURING YEAR 1941 AFFECTING PROPRIETOR'S EQUITY

Line abandonment between mileages 13.12 and 16.66 Deschailions Subdivision	\$	61,234 71
Line abandonment between mileage 0.00 and 33.94 Tweed Subdivision.....		607,145 87
Line abandonment between mileages 3.33 and 9.52 Marmora Branch.....		76,534 35
Line abandonment between mileages 2.11 and 19.61 Port Perry Subdivision..		191,563 27
Line abandonment City of Niagara Falls.....		329,214 79
Line abandonment between mileage 45.57 and 68.50 Exeter Subdivision....		430,773 37
Line abandonment between mileages 0.67 and 5.76 Red Deer Subdivision....		367,377 55
Line abandonment between mileages 0.23 and 27.48 Sorel Subdivision.....		38,083 64
Line abandonment Bay City Terminal, Mich.....		379,984 90
Retirement of telegraph line on Quebec Central Railway.....		57,274 76
	\$	2,539,187 21
Transfers of Canadian Government Railways property to Government Depart- ments	\$	451,869 07
Adjustment of investment account in respect of Prince Edward Island Car Ferries and Facilities.....		7,407,371 04
	\$	7,859,240 11
	\$	10,398,427 32

Mr. ARMSTRONG: This shows the changes during the year. Beneath that table of transfers during the year 1941 affecting proprietor's equity. Mr. Cooper referred to this a few moments ago. Pages 19 and 20 show a statement of funded debt, principal and interest—principal at the end of the year and interest accrued during 1941.

FUNDED DEBT—PRINCIPAL AND INTEREST

NAME OF SECURITY	Issuing Company	Date of Issue	Date of Maturity	Principal Outstanding at Dec. 31, 1941	Interest Accrued 1941
GUARANTEED BY DOMINION GOVERNMENT:					
5% Perpetual Debenture Stock.....	G.T.R.	1875 to 1883	Perpetual	\$ 20,782,491.67	\$ 1,039,124.58
5% G.W. Perp. Debtr. Stock and Bonds....	G.T.R.	1858 to 1876	Perpetual	13,252,322.67	662,616.12
4% Perpetual Debenture Stock.....	G.T.R.	1883 to 1918	Perpetual	8,392,883.00	330,427.13
4% Nor. Rly. Perpetual Debtr. Stock.....	G.T.R.	July 31, 1884	Perpetual	1,449,979.67	59,999.18
4% Perpetual Guaranteed Stock.....	G.T.R.	1884 to 1909	Perpetual	60,833,333.33	2,433,333.33
3% 1st Mortgage Bonds.....	G.T.P.	July 1, 1905	Jan. 1, 1962	34,992,000.00	1,049,760.00
4% Sterling Bonds.....	G.T.P.	July 1, 1914	Jan. 1, 1962	8,440,848.00	337,633.92
3% 1st Mortgage Debenture Sotek.....	Can. Nor.	July 29, 1903	July 10, 1953	9,359,996.72	280,799.86
3½% 1st Mortgage Debenture Stock.....	Can. Nor.	Mar. 1910	July 20, 1958	7,896,541.81	276,378.96
6½% Sinking Fund Debenture Bonds.....	Can. Nor.	July 1, 1921	July 1, 1946	23,897,000.00	1,553,305.00
3½% 1st Mortgage Debenture Stock.....	C.N.A.	Mar. 22, 1911	May 4, 1960	3,149,998.66	110,249.94
3½% 1st Mortgage Debenture Stock.....	C.N.O.	Dec. 8, 1911	May 19, 1961	34,229,996.87	1,198,049.84
5% 30 Year Guaranteed Bonds.....	Can. Nat.	Feb. 1, 1924	Feb. 1, 1954	50,000,000.00	2,500,000.00
2% 1927 Guaranteed Debenture Stock.....	Can. Nat.	July 1, 1926	By Drawings	19,443,676.53	398,757.93
4½% 30 Year Guaranteed Gold Bonds.....	Can. Nat.	July 1, 1927	July 1, 1957	65,000,000.00	2,925,000.00
5% 40 Year Guaranteed Gold Bonds.....	Can. Nat.	July 1, 1929	July 1, 1969	60,000,000.00	3,000,000.00
5% 40 Year Guaranteed Gold Bonds.....	Can. Nat.	Oct. 1, 1929	Oct. 1, 1969	60,000,000.00	3,000,000.00
5% 40 Year Guaranteed Gold Bonds.....	Can. Nat.	Feb. 1, 1930	Feb. 1, 1970	18,000,000.00	900,000.00
4½% 25 Year Guaranteed Gold Bonds.....	Can. Nat.	June 15, 1930	June 15, 1955	50,000,000.00	2,375,000.00
4½% 25 Year Guaranteed Gold Bonds.....	Can. Nat.	Feb. 1, 1931	Feb. 1, 1956	70,000,000.00	3,150,000.00
4½% 25 Year Guaranteed Gold Bonds.....	Can. Nat.	Sept. 1, 1931	Sept. 1, 1951	50,000,000.00	2,250,000.00
4½% 20 Year Guaranteed Gold Bonds.....	Can. Nat.	Dec. 15, 1934	Dec. 15, 1950	20,500,000.00	615,000.00
3% 16 Year Guaranteed Bonds.....	Can. Nat.	May 1, 1935	May 1, 1944	35,000,000.00	1,050,000.00
3% 9 Year Guaranteed Bonds.....	Can. Nat.	Feb. 15, 1936	Feb. 15, 1943	55,000,000.00	1,100,000.00
2% 7 Year Guaranteed Bonds.....	Can. Nat.	Feb. 1, 1937	Feb. 1, 1944	25,000,000.00	750,000.00
3% 17 Year Guaranteed Bonds.....	Can. Nat.	Feb. 15, 1936	Feb. 15, 1953	15,500,000.00	348,750.00
2½% 7 Year Guaranteed Bonds.....	Can. Nat.	Feb. 1, 1937	Feb. 1, 1952	20,000,000.00	600,000.00
3% 15 Year Guaranteed Bonds.....	Can. Nat.	Dec. 15, 1937	Dec. 15, 1950	30,000,000.00	900,000.00
3% 13 Year Guaranteed Bonds.....	Can. Nat.	Jan. 15, 1938	Jan. 15, 1942	20,000,000.00	400,000.00
2% 4 Year Guaranteed Bonds.....	Can. Nat.	Jan. 15, 1939	Jan. 15, 1946	15,000,000.00	337,500.00
2½% 7 Year Guaranteed Bonds.....	Can. Nat.	Jan. 15, 1939	Jan. 15, 1959	35,000,000.00	1,050,000.00
3% 20 Year Guaranteed Bonds.....	Can. Nat.	Jan. 15, 1939	Jan. 15, 1959	35,000,000.00	1,050,000.00
Total Issues Guaranteed by Dominion Government.....				\$940,171,068.93	\$36,981,685.79

GUARANTEED BY THE PROVINCE OF NEW BRUNSWICK:

4% 1st Mortgage Debenture Stock.....	St. J. & Q.	May 14, 1912	June 1, 1962	\$ 2,727,977.40	\$ 109,119.10
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GUARANTEED BY PROVINCE OF ALBERTA:

4% 1st Mortgage Bonds.....	G.T.P.B.L.	May 1, 1912	Feb. 15, 1942	1,153,764 00	46,150.56
4½% 1st Mtge. Debtr. Stock and Bonds.....	C.N.W.	Mar. 1914	Oct. 22, 1943	2,799,997.73	125,999.90
4½% 1st Mtge. Debtr. Stock and Bonds.....	C.N.W.	Feb. 1914	Feb. 16, 1942	6,424,000.00	289,080.00

FUNDED DEBT—PRINCIPAL AND INTEREST (Continued)

NAME OF SECURITY	Issuing Company	Date of Issue	Date of Maturity	Principal Outstanding at Dec. 31, 1941	Interest Accrued 1941
GUARANTEED BY PROVINCE OF BRITISH COLUMBIA:					
4% 1st Mortgage Debenture Sotck.....	C.N.P.	Nov. 16, 1911	Apr. 2, 1950	16,412,001.13	656,480.07
4½% Terminal Debenture Stock.....	C.N.P.	1913 and 1914	Apr. 2, 1950	8,614,000.00	387,630.00
Total Issues Guaranteed by Provincial Governments.....				\$ 38,131,740.26	\$ 1,614,459.63

EQUIPMENT TRUST ISSUES:

4½% Series "J".....	Can. Nat.	May 1, 1927	Ser. 1, 5, '42	1,000,000.00	60,000.00
5% " " "K".....	Can. Nat.	May 1, 1929	Ser. 1, 5, '44	3,600,000.00	200,000.00
5% " " "G.T.W.".....	G.T.W.	Dec. 14, 1929	Ser. 14, 12, '44	842,000.00	55,581.80
5% " " "C.V.R.".....	G.T.W.	Dec. 14, 1929	Ser. 14, 12, '44	133,000.00	8,841.39
5% " " "C.V.R.".....	C.V.R.	Dec. 14, 1929	Ser. 14, 12, '44	228,000.00	15,126.67
4½% " " "L".....	Can. Nat.	June 1, 1930	Ser. 1, 6, '45	4,200,000.00	208,687.50
2½% " " "O".....	Can. Nat.	Aug. 1, 1937	Ser. 1, 8, '47	8,580,000.00	235,354.17
2½% " " "P".....	Can. Nat.	Sept. 15, 1938	Ser. 15, 9, '53	6,100,000.00	177,489.58
2½% " " "Q".....	Can. Nat.	July 1, 1939	Ser. 1, 7, '49	5,200,000.00	138,125.00
2½% " " "G.T.W.".....	G.T.W.	June 1, 1941	Ser. 1, 6, '51	1,715,000.00	7,670.14
Total Equipment Trust Issues.....				\$ 31,598,000.00	\$ 1,106,876.25

OTHER ISSUES:

4% Canada Atlantic 1st Mtge. Bonds.....	G.T.R.	Jan. 1, 1905	Jan. 1, 1955	\$ 16,000,092.00	\$ 640,003.68
7% Wellington Grey & Bruce Bonds.....	G.T.R.	July 1, 1869	By Drawings	35,526.67	17,171.96
6% Northern Railway 3rd Pref. Bonds.....	G.T.R.	1868	Perpetual	70,566.66	4,234.00
3½% 1st Mortgage Bonds.....	N.E. Elev.	July 1, 1901	Ser. 1, 7, '41	—	187.50
4% 1st Mortgage Bonds.....	Pem. Sou.	Sept. 1, 1906	Sept. 1, 1956	150,000.00	6,000.00
4% 2nd Mtge. Bonds, Prairie "A".....	G.T.P.	Apr. 1, 1905	Apr. 1, 1955	10,206,000.00	408,240.00
4% 2nd Mtge. Bonds, Mountain "B".....	G.T.P.	Apr. 1, 1905	Apr. 1, 1955	9,963,000.00	398,520.00
4% 1st Mtge. Bonds, "Lake Superior".....	G.T.P.	Apr. 1, 1905	Apr. 1, 1955	7,533,000.00	301,320.00
4% Perpetual Cons. Debenture Stock.....	Can. Nor.	1903 to 1912	Perpetual	44,943,019.40	1,797,720.74
4% Perpetual Cons. Debenture Stock.....	C.N.O.	June 21, 1909	Perpetual	8,724,113.20	348,964.50
4% Perpetual Cons. Debenture Stock.....	C.N.Q.	Oct. 1906	Perpetual	5,250,369.26	210,014.76
4% 1st Mtge. Perp. Debenture Stock.....	Q. & L.St.J.	June 1, 1912	Perpetual	4,252,503.06	170,100.14
4% 1st Mortgage Bonds.....	G.T.W.	Nov. 30, 1900	July 1, 1950	10,964,416.00	439,413.86
4½% 1st Mortgage Series "A" Bonds.....	G.T.W.	Jan. 1, 1930	Jan. 1, 1980	400,000.00	18,000.00
4% Indebtedness of S.S. & C. Co.....	C.V.R.	Aug. 27, 1858	Optional	155,865.25	6,234.61
4% 1st Mortgage Gold Bonds.....	M. & P.L.	Oct. 1, 1900	Oct. 1, 1950	200,000.00	8,000.00
3½% 1st Mortgage Guar. Debtr. Bonds.....	H. & S.W.	Oct. 1, 1912	Sept. 30, 1942	4,447,000.00	155,645.00
5% Indebtedness to Province of N.B.....	Can. Nat.	Sept. 3, 1929	Various	1,198,022.60	65,434.46
Total Other Issues.....				\$ 124,493,494.10	\$ 4,995,205.21

Total Debt held by Public (including therein \$13,763,628.52 par value held in Special Funds and Accounts) as per Balance Sheet.....	\$1,134,394,303.29	\$44,698,226.88
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NOTE.—These obligations are stated in Canadian Currency. Sterling and United States currencies are converted at the par of exchange.

DOMINION OF CANADA—LOANS
(Treated as Assets in Public Accounts of Canada)

	Principal Outstanding at Dec. 31, 1941	Interest Accrued 1941
3½% Advances, Financing and Guarantee Act, 1938.....	\$ 1,717,008.90	\$ 60,095.32
3½% Advances, Financing and Guarantee Act, 1939.....	12,442,522.40	435,488.28
3½% Advances, Financing and Guarantee Act, 1940.....	7,572,579.77	264,236.04
3½% Advances, Financing and Guarantee Act, 1941.....	11,943,000.29	315,608.92
3½% Advances, Branch Line Construction Act, 1936.....	638,908.55	22,361.80
3½% Advances, Trans-Canada Air Lines Act, 1937.....	550,000.00	19,250.00
2% Advances, Refunding Act, 1938.....	24,689,392.53	493,787.86
3½% Advances, G.T.R. Deb. Stock.....	105,843,357.19	3,395,434.55
3½% Temporary Loan for Working Capital.....	11,406,999.71	—
3% Purchase of Railway Equipment, 1936 (Repayable 1938-1950).....	4,654,557.73	144,162.00
3½% Purchase of Railway Equipment, 1940 (Repayable 1941-1955).....	13,887,556.46	496,337.47
	\$ 195,345,883.53	\$ 5,646,762.24

Mr. HANSON: I see you still have some of these 5 per cent perpetual bonds. Are these bonds outstanding yet? What has been done to them this last year? That has always been a bone of contention every year.

Mr. COOPER: Yes, Mr. Hanson. Under the recent resting order by the U.K. treasury, those bonds, to the extent that they are held by residents of the U.K., have been vested in the U.K. treasury and will be transferred over here.

Mr. DONNELLY: How many do you think we will get?

Mr. COOPER: Somewhere around 95 per cent or possibly more. Practically all the sterling securities on that list have been vested. As a matter of fact, some \$300,000,000 of these securities are subject to the vesting orders and will be retired in so far as the railway company is concerned.

Mr. HANSON: Speaking of these perpetual bonds, are there any held in Canada by Canadians?

Mr. COOPER: There may be a few of them held by Canadian citizens and an offer will be made to the Canadian citizens to turn in their bonds on terms equal with those offered by the U.K. treasury to residents of the U.K.

Mr. DONNELLY: You are referring to the first five on the list, the perpetual bonds?

Mr. COOPER: The vesting order goes much further than that.

Mr. MAYBANK: Mr. Chairman, would you permit me to make a remark on something remote from this for just a moment, or to just digress for a moment? I am sorry that we adopted the T.C.A. report when we did, because some information has since come to me that I should have liked to make some inquiry upon. However, anything related to the T.C.A. is, I take it, germane in this committee since Canadian National Railways is the owner of T.C.A. I want, when we resume, to ask some further questions with reference to air lines; that being the case, I feel sure you will agree that it is germane to the work of this committee, since we have the owner of the airlines here. I was going to suggest that, if it were possible, Mr. Symington might be informed in case it would be possible for him to be here again. I did not get the information that leads to these questions until after the time of the adoption of the report.

The CHAIRMAN: I understand that we have to consider the estimates after these reports. Probably Mr. Symington could be asked to appear again, but the officers generally of the T.C.A. have gone west to their homes.

Mr. MAYBANK: Yes. I do not think it would need the officers generally at all; and as a matter of fact, it might not even need Mr. Symington. It would seem to me that, if I were to introduce anything with reference to that to the ownership committee here, they would probably want the president of the subsidiary here.

The CHAIRMAN: I do not know just when we will get to the estimates, but I imagine there would be no reason why you could not ask your questions then.

Mr. MAYBANK: It does not make any difference to me when, but since it was in my mind I thought I would give advance notice.

The CHAIRMAN: You will have a clear road to make your inquiry at that time.

Mr. JACKMAN: I think we did take up pensions in a former year. There is no fund from which pensions are paid. You charge that to operating expenses?

Mr. VAUGHAN: To operating expenses.

Mr. JACKMAN: Is that common to the railroads in the United States?

Mr. COOPER: We have a fund which is building up. Our present pension fund—and I am speaking now of the Canadian National Railway Company

because there are two other funds, the Grand Trunk superannuation fund and the Intercolonial fund—is now on a contributory basis, and the employees are contributing and have been contributing since January 1st, 1935. There is a fund with respect to that. But it is not an asset of the railway and it does not appear in the assets shown in the balance sheet.

Mr. JACKMAN: It is entirely separate. You merely make your contribution, which is charged to the current operating expenses.

Mr. COOPER: We withdraw from the pension fund the portion of the pension which has been purchased by contributions from employees. The balance of the pension payable at the expense of the company, is charged to operating expenses currently.

Mr. JACKMAN: Yes.

Mr. COOPER: There is no fund with respect to that.

Mr. JACKMAN: Is that fund run by a joint committee of representatives of the employees and the railway?

Mr. COOPER: Yes. There is a pension board of seven, four of whom are railway officers and three of whom are representatives of labour organizations.

Mr. JACKMAN: About what proportion is contributed by the employees?

Mr. COOPER: The present plan is contributory. The contribution is optional. The employee is not compelled to contribute if he does not wish to. He may contribute any percentage of his wages up to 10 per cent. The railway undertakes to match his contribution up to the extent of 5 per cent. In addition to the pension which is purchasable out of that fund, as I have described it, the railway provides, at its own expense, with respect to new employees, a basic pension of \$25 per month. With respect to old employees there is what we call a service pension computed on service to December 31, 1934, and that service pension is arrived at by crediting to the account of each member 1 per cent for each year of service by the employees based upon their best ten years average wages.

Mr. JACKMAN: If the employee does not wish to contribute or refuses to contribute at all to the new pension plan, then he does not come under it?

Mr. COOPER: In that case he gets a pension of \$25 a month; provided of course, that he meets the service requirements.

Mr. JACKMAN: At what age would he draw the basic pension?

Mr. COOPER: Sixty-five is the retiring age in our fund.

Mr. JACKMAN: In other words, if the old age pension law were reduced by five years, it would do away with that entirely. By law a man would be just as well off if you did not have the fund. At seventy a person gets \$20 a month, I think, from the old age pension now. If he draws your pension, he cannot draw the old age pension from the government. That is so?

Mr. COOPER: Yes, that is so.

Mr. McCULLOCH: I notice some bonds guaranteed by the provinces of Alberta, New Brunswick and British Columbia. Has the interest been paid by the different provinces?

Mr. COOPER: No, sir.

Mr. VAUGHAN: No, they have never paid any interest on those bonds of ours.

Mr. JACKMAN: The cost last year of your contribution to the pension fund was \$4,731,000.

Mr. COOPER: The total cost of pensions payable at the expense of the railway was \$4,900,000.

Mr. JACKMAN: Payable at the expense of the railway alone?

Mr. COOPER: Yes.

Mr. JACKMAN: On top of that you had your contribution to the fund also?

Mr. COOPER: Contributions to the fund were made by the employees.

Mr. NICHOLSON: To what extent?

Mr. COOPER: I am afraid we have not got this thing very straight, have we?

Mr. JACKMAN: You have some pensions you are paying directly; other pensions you pay from a fund which you refer to sometimes as "us", whereas it is something distinct and does not enter into your consolidated picture at all. What I am asking is, does the \$4,731,000 represent the total cost of pensions to the railway last year?

Mr. COOPER: The cost to the railway? Yes.

Mr. JACKMAN: And there is no contribution on top of that under this separate fund charged to operating expenses?

Mr. COOPER: No.

Mr. JACKMAN: Is this pension scheme pretty much in line with what the American railroads are doing?

Mr. COOPER: No. Theirs is a government pension scheme; it is compulsory for all railway employees. They are required to contribute 3 per cent of their earnings up to \$300—the first \$300 of their earnings—and the railway is required to contribute 3 per cent also. Those amounts are transferred to Washington and go into what is called the United States Railroad Retirement Fund, and it is out of that fund railway employees in the United States receive their pensions.

Mr. JACKMAN: Your system is willing to do better than that inasmuch as it will contribute 5 per cent if the employee contributes 5 per cent?

Mr. COOPER: Yes.

Mr. HANSON: Have you a board comprised of the management and employees, and how many members are there on this board?

Mr. COOPER: There are seven members of the board, four of whom are appointed by the railway and three are representatives of labour organizations.

Mr. SANDERSON: How many employees who have been retired are drawing pension at the present time?

Mr. COOPER: At the present time?

Mr. SANDERSON: Yes.

Mr. COOPER: 6,397.

The CHAIRMAN: We were last discussing the funded debt on page 20.

Mr. ARMSTRONG: The total of Dominion Government Loans is at the bottom of page 20, "Principal outstanding at December 31, 1941, \$195,345,883; interest accrued 1941 totals \$5,646,762."

Mr. JACKMAN: I should like to revert to the pension account. Who looks after the investing of those assets and what do you put them into—government bonds or your own system of security?

Mr. COOPER: The railway company is trustee of the fund. The financial officers of the railway see to the investing of the fund, but under the regulations of the fund the assets can be invested only in dominion securities or securities guaranteed by the dominion.

Mr. JACKMAN: Then you are earning better than 3 per cent on them now?

Mr. COOPER: I believe the present rate would be about $3\frac{1}{3}$ per cent.

Mr. JACKMAN: Was consideration given to taking out annuities with the Dominion government where the rate is 4 per cent in the annuity department?

Mr. COOPER: Of course the amount which you can take out under government annuities is limited, is it not?

Mr. JACKMAN: Twelve hundred a year.

Mr. COOPER: It may have been considered; it certainly was not adopted.

Mr. JACKMAN: Do you think the report of that pension committee should be tabled before this committee?

Mr. COOPER: The Pension Board does not make a report. The minutes of the meetings of the board are prepared in great detail; they are submitted to the board of directors of the railway company for approval. When they are approved they are made effective by the proper officers of the railway.

Mr. JACKMAN: How much do the total funds amount to now?

Mr. COOPER: \$11,718,000.

Mr. JACKMAN: It has been in operation how many years?

Mr. COOPER: Since January 1, 1935.

Mr. HANSON: Approximately, how much is paid out in the year 1941 for the 6,000 pensioners?

Mr. COOPER: I am afraid I made a mistake when I gave a figure of 6,397. I was speaking of the Canadian National Railway pensions plan. That is the one we have been discussing. But I mentioned there were two other plans—the Intercolonial-Prince Edward Island Provident fund which related to the government railways and which was closed out to new members in 1929, and there is also what is called the Grand Trunk Superannuation fund which is a carry-over from the Grand Trunk prior to consolidation. Taking the three funds together the total payments made in the year 1941 were \$5,365,000 of which \$4,901,000 was paid by the railway, and including these other two funds the total pensioners at the end of 1941 in the three funds numbered 8,634.

Mr. SANDERSON: You gave me 6,000.

Mr. COOPER: The 6,397 was limited to the Canadian National Railway fund which we were discussing at the time.

Mr. EMMERSON: Before we close may I go back to one question on page 13: Income from lease of road and equipment; is that the portion of the road leased to the D.A.R.?

Mr. VAUGHAN: You mean that \$70,000 item?

Mr. EMMERSON: Yes.

Mr. VAUGHAN: No, I do not think that is it, but Mr. Cooper will have it.

Mr. HAZEN: Was the letter from the master of the *Lady Hawkins* filed?

Mr. VAUGHAN: There was no such letter.

Mr. COOPER: In answer to your question I may say that the item of \$70,000 includes \$22,500 for the rent paid by the Dominion Atlantic Railway for the line from Windsor to Windsor Junction.

The CHAIRMAN: Gentlemen, before we adjourn I may say that we expect to have the ministers on hand on Monday morning.

The committee adjourned to meet Monday, May 4, at 11 o'clock a.m.

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Canada, Railway and Shipping Committee
May 1942

SESSION 1942

CA1XC15 HOUSE OF COMMONS

-R17

STANDING COMMITTEE
ON
RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 3

MONDAY, MAY 4, 1942.

WITNESSES:

- Hon. P. J. A. Cardin, K.C., M.P., Minister of Transport and Public Works.
- Hon. C. D. Howe, M.P., Minister of Munitions and Supply.
- Hon. J. L. Ralston, K.C., M.P., Minister of National Defence (Army).
- Hon. W. P. Mulock, K.C., M.P., Postmaster General.
- Hon. A. L. Macdonald, K.C., M.P., Minister of National Defence (Navy).
- Mr. H. J. Symington, President, Trans-Canada Air Lines.
- Mr. R. C. Vaughan, President, Canadian National Railway.
- Mr. Alistair Fraser, Vice President of Traffic, Canadian National Railway.
- Mr. N. B. Walton, Vice-President, Operations, Canadian National Railway.

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1942



MINUTES OF PROCEEDINGS

Room 277,

Monday, 4th May, 1942.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met this day at 11 o'clock a.m. Mr. J. P. Howden, the Chairman, presided.

Members present: Messrs. Bradette, Donnelly, Dubuc, Emmerson, Gray, Hanson (*Skeena*), Hazen, Howden, Howe, Jackman, Lockhart, McCulloch, Maybank, Nicholson, Pouliot, Sanderson, Shaw, Sissons.

In attendance: Hon. J. P. A. Cardin, K.C., M.P., Minister of Transport and Public Works; Hon. J. L. Ralston, K.C., M.P., Minister of National Defence (Army); Hon. W. P. Mulock, K.C., M.P., Postmaster General; Mr. S. J. Hungerford, Chairman of the Board of Directors of the Canadian National Railway System and the following officers: Mr. R. C. Vaughan, President; Mr. N. B. Walton, Vice-President of Operations; Mr. Alistair Fraser, Vice-President of Traffic; Mr. T. H. Cooper, Comptroller; Mr. W. S. Thompson, Director of Public Relations; Mr. W. M. Armstrong, Assistant Chief of Research and Development; Mr. H. J. Symington, K.C., President and Director of Trans-Canada Air Lines; Mr. O. A. Matthews, representing George A. Touche & Co., auditors; Mr. C. P. Edwards, Deputy Minister of Transport, also Mr. F. M. MacLennan, Chief Treasury Officer and Mr. J. A. Wilson, Director of Air Services; Mr. P. T. Coolican, Assistant Deputy Postmaster General; Mr. Geo. Herring, Superintendent Air and Land Services; Mr. R. H. MacNabb, Chief Superintendent of Railway Mail Service; Colonel H. O. Lawson, Director of Supplies & Transport (Army); Mr. F. K. Hollyman, Traffic Manager, R.C.A.F.

In opening the proceedings, the Chairman read to the Committee a telegram he had just received from Mr. H. R. Moore, Chairman of Committees of the C.N.R. Brotherhoods of Locomotive Firemen and Brotherhood of Locomotive Engineers, requesting a hearing before the Committee to present their case on Western working conditions. The telegram was dated from Winnipeg on May 3, 1942.

Some discussion followed as to whether such representations came within the province of the Committee.

On motion of Mr. Hanson, seconded by Mr. Nicholson, it was

Resolved: That the request of the Brotherhood of Locomotive Firemen and Locomotive Engineers be granted.

And the Chairman instructed the Clerk to notify Mr. H. R. Moore, Winnipeg, accordingly.

The Chairman then informed the members that Mr. H. J. Symington, K.C., was present and the latter was recalled to the witness stand. However, the examination of this witness was suspended in order to hear some of the Ministers who had just arrived.

Hon. P. J. A. Cardin, Minister of Transport and Public Works was called first and volunteered a statement in respect to the division of business in his departments between the C.N.R. and C.P.R.

Objection was taken by some members of the Committee to the fact that the correspondence requested by a resolution adopted on Friday, 1st May, was not being tabled. A lengthy discussion followed as to whether the Ministers should be heard before such correspondence had been tabled.

After considerable debate on this question, Mr. Nicholson, seconded by Mr. Donnelly, moved as follows:

That the debate on the question as to whether or not the correspondence be filed be adjourned and that the Committee proceed with the examination of the Ministers of the Government now present.

In amendment thereto Mr. Maybank, moved, seconded by Mr. Pouliot:

That all the words after the second "that" in the main motion be struck out and the following words be substituted therefor: "the ministers of the Government be not now examined."

And the question being put on the said amendment it was resolved in the negative as follows: Yes, 3; Nays, 13.

And the question being put on the said main motion it was adopted on division.

The Chairman thereupon invited Mr. Cardin to proceed with his statement. The minister was questioned by the members.

Hon. C. D. Howe, Minister of Munitions and Supply was afterwards invited to address the Committee. The minister outlined his views on the subject of division of business between the C.N.R. and the C.P.R. and he answered a number of questions from the members. During Mr. Howe's submission, Mr. Alistair Fraser, Vice-President of Traffic of the Canadian National Railway replied to a few incidental questions.

Hon. J. L. Ralston, Minister of National Defence followed. He filed with the Committee a memorandum covering the "reasons for Travelling and Shipping via C.N.R.", prepared by Mr. Vaughan and this document appears as Appendix "B" at the conclusion of the report of evidence heard this day. Mr. Ralston was assisted in some of his replies by Colonel H. O. Lawson. During the minister's submission, Mr. Vaughan and Mr. Alistair Fraser answered a few incidental questions.

At 1 o'clock p.m., the Committee adjourned to meet again at 4 o'clock p.m. this day.

AFTERNOON SITTING

The Committee met at 4 o'clock p.m., Mr. J. P. Howden, the Chairman, presiding.

Members present: Messrs. Bradette, Donnelly, Dubuc, Emmerson, Gray, Hanson (*Skeena*), Hazen, Howden, Jackman, Lockhart, McCulloch, Nicholson, Sanderson, Shaw, Sissons.

In attendance: Hon. P. J. A. Cardin, Hon. W. P. Mulock, Hon. Angus L. Macdonald, K.C., M.P., Minister of National Defence (Navy), Mr. Symington, Mr. Hungerford, Mr. Vaughan and the other officials of the Canadian National Railway named in the morning list of attendance, also the officials of the Transport Department, the Post Office Department, and the National Defence (Army) headquarters.

Mr. H. J. Symington, K.C., was recalled and questioned further in connection with matters pertaining to the Trans-Canada Air Lines. The witness was assisted by Mr. T. H. Cooper, Comptroller.

The Chairman thanked the witness for his courtesy in re-appearing before the Committee and he was permitted to retire.

Hon. W. P. Mulock, K.C., M.P., Postmaster General was afterwards called. The minister read a statement indicating the division of business of mail between the C.P.R. and the C.N.R. He was assisted by Messrs. Coolican, Herring and MacNabb, Assistant Deputy Minister and officials respectively of the Post Office Department. After replying to a number of questions by the members Mr. Mulock was excused.

Mr. Alistair Fraser, Vice-President of Traffic of the Canadian National Railway System, was then called. The witness was questioned at length on the subject of division of business between the two railways. His evidence was suspended and it was agreed he would be recalled after the Ministers of National Defence for Navy and Air had been heard.

The Chairman informed the members that the Minister of National Defence for the Navy had returned to the House but had left word he would return as soon as the Committee was prepared to hear him. Only fifteen minutes remaining before the dinner recess the Committee agreed to call Hon. A. L. Macdonald for the next sitting.

The Committee then resumed the adjourned study of the Annual Report of the Canadian National Railway System. Mr. Vaughan, president, was recalled and was assisted by Messrs. Walton, Armstrong and Cooper. At the request of the Committee the witness filed a statement of Coal Purchases 1940-41 and this document appears as appendix "C" following the minutes of evidence taken this day. Also a breakdown of operations of Hotels (Appendix "D") and a statement of Taxes paid in 1941 (Appendix "E").

At 6 o'clock p.m., on motion of Mr. Hanson (*Skeena*), the Committee adjourned to meet again at 8.30 o'clock in the evening.

EVENING SITTING

The Committee met again at 8.30 o'clock p.m., Mr. J. P. Howden in the Chair.

Members present: Messrs. Donnelly, Emmerson, Ferland, Gray, Hanson (*Skeena*), Hazen, Howden, Jackman, Lockhart, McCulloch, Maybank, Nicholson, Pouliot, Sanderson, Shaw, Sissons.

In attendance: Hon. P. J. A. Cardin, K.C., M.P., Minister of Transport; Hon. A. L. Macdonald, K.C., M.P., Minister of National Defence (Navy); Mr. R. C. Vaughan, Mr. Alistair Fraser, Mr. N. B. Walton, Mr. T. H. Cooper, Mr. W. S. Thompson, Mr. W. M. Armstrong, of the Canadian National Railway System; Mr. C. P. Edwards and Mr. F. M. MacLennan, Deputy Minister and Chief Treasury Officer respectively of the Department of Transport; Colonel H. O. Lawson, Director of Supplies and Transport (Army); Mr. F. K. Hollyman, Traffic Manager, R.C.A.F.; Mr. O. A. Matthews, representing A. Touche & Co., auditors.

The Chairman informed the members that Major the Honourable C. G. Power, Minister of National Defence for Air, will be prepared to appear before the Committee at the next sitting. Also that the delegation from the Brotherhoods of Locomotive Firemen and Locomotive Engineers, from Winnipeg, would appear on Wednesday morning.

Before proceeding with the taking of evidence, the Committee resumed debate on the motion of Mr. Shaw, of May 1, viz:—

That the members of the Board of Transport Commissioners who had sat on the Board at the hearing of the case of the abandonment of 53·4 miles between Forth (near Red Deer) and Ullin, Alberta, and whose decision had been rendered in recent days, both assenting and dissenting members, be called to appear before the Committee on Railways and Shipping, in order to question them in connection with that decision.

The said debate was again adjourned in order to hear Hon. A. L. Macdonald.

Hon. A. L. Macdonald, K.C., M.P., Minister of National Defence for Naval Services, was called. The minister gave an outline of the instructions in force in the Naval Department regarding the division of business in transport between the C.N.R. and the C.P.R. After replying to many questions from the members Mr. Macdonald undertook to supply the Committee with further data in this connection at the next meeting of the Committee and he was permitted to retire.

The Committee then reverted to the debate on the motion of Mr. Shaw which had been suspended earlier. Mr. Shaw presented a lengthy brief in support of his motion and after some remarks in answer by Hon. P. J. A. Cardin, he was allowed to withdraw his motion to the effect of calling the Board of Transport Commissioners to appear before the Committee.

Mr. Shaw then moved:—

That the C.N.R. members of the Joint Committee of the Canadian National Railway System and the Canadian Pacific Railway System, who had occupied on behalf of the Joint Committee before the Board of Transport Commissioners, be called before the Committee for examination.

Mr. Shaw made a submission in support of his motion and again was answered by Hon. P. J. A. Cardin. After some debate on the motion Mr. Shaw with the leave of the Committee withdrew his motion.

Mr. Gray, thereupon moved:—

That the Committee do now adjourn.

And the question on the motion being put, it was agreed to on the following division: Yeas, 8; Nays, 5.

At 10 o'clock p.m. the Committee adjourned to meet again on Tuesday, May 5, at 4 o'clock p.m.

ANTOINE CHASSE,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, Room 277,

May 4, 1942.

The Select Standing Committee on Railways and Shipping met at 11 o'clock. The Chairman, Mr. J. P. Howden, presided.

The CHAIRMAN: Order. Gentlemen, I have a communication by way of a telegram, which I shall ask the clerk to read to you.

The CLERK:

Winnipeg, Man., May 4, 1942.

J. P. Howden, M.D., M.P.,
Chairman, C.N.R. Committee,
House of Commons,
Ottawa, Ont.

Dear Sir, C.N.R. Brotherhoods of Locomotive Firemen and Brotherhood of Locomotive Engineers request hearing before C.N.R. Committee to present case on western working conditions. Yours respectfully

H. R. MOORE,
Chairman for Committees.

The CHAIRMAN: What is your wish in connection with this communication?

Mr. GRAY: Is there any further indication of what they desire?

The CHAIRMAN: I have no idea. I just got this telegram early this morning.

Mr. HANSON: Where is it from?

The CHAIRMAN: From Winnipeg. Obviously it will delay the committee, but if this group of men have the right to expect to be heard you will have to give them consideration, I presume.

Mr. MAYBANK: I apprehend that these are two brotherhoods in Winnipeg who wish to present to this committee statements respecting employment and unemployment on the Canadian National and by implication that the Canadian National out that way is not getting a fair share of business, the same business we have been discussing here, and in my view they may have something that it would be worth while the committee knowing about. There is no reason why this brotherhood should not be heard; and on the contrary there is every reason why they should be heard.

The CHAIRMAN: What is your suggestion? Will somebody make a motion to the committee? Will somebody move that the committee express its willingness to hear them at such and such a time on such and such a date?

Mr. SANDERSON: Would you read that telegram again, please?

The CHAIRMAN: "C.N.R. Brotherhoods of Locomotive Firemen and Brotherhood of Locomotive Engineers request hearing before C.N.R. Committee to present case on western working conditions."

Mr. SANDERSON: Might that include the C.N.R. and the C.P.R.?

The CHAIRMAN: It just says C.N.R.

Mr. DONNELLY: It is the brotherhood.

Mr. HANSON: Are there two separate brotherhoods, does anybody know?

The CHAIRMAN: I shall read the telegram again. "C.N.R. Brotherhoods of Locomotive Firemen and Brotherhood of Locomotive Engineers request hearing before C.N.R. Committee to present case on western working conditions."

Mr. HANSON: May I ask Mr. Maybank if there are two brotherhoods, one for the C.P.R. and one for the C.N.R.?

Mr. MAYBANK: There are not two brotherhoods. They are organized generally into locals, one of which will comprise only those on one railroad and the other will comprise only those on another railroad. I presume that in this case it refers only to the lodge or local or division, whatever they call it, that comprises the C.N.R. men. I do not know whether the Brotherhood of Locomotive Engineers is still organized separately, I think it is. This, in my opinion, would be the lodges of those brotherhoods which comprise the C.N.R. men, although they all belong to the same parent body.

The CHAIRMAN: Gentlemen, I think it is a matter you ought to be able to decide very quickly. You ought to be able to decide whether these men are entitled to be heard or whether they are not entitled to be heard. Would someone make a motion to that effect?

Mr. HANSON: I move, if they are entitled to be heard, that we allow them a hearing.

The CHAIRMAN: I think they are entitled to a hearing.

Mr. SISSONS: What has been the practice in the past?

The CHAIRMAN: I do not know that a matter of this kind has ever come up before the committee in my experience.

Mr. HANSON: We had representation here three years ago.

Mr. NICHOLSON: I should be glad to second the motion.

The CHAIRMAN: Have you any suggestion as to a date?

Mr. DONNELLY: Leave it to the Chair.

The CHAIRMAN: All right.

Mr. GRAY: I think we ought to be careful not to open the door too wide. We may get requests from other bodies and each one will have to be dealt with on its merit.

Mr. POULIOT: I know of a gentleman who has an office on Sparks street, who belongs to the International Trade Union Congress, who has appeared and submitted a brief already before this committee. I think his name starts with a "D." It is a short name.

The CHAIRMAN: You have a motion before you.

Mr. SHAW: In my humble judgment this is the committee which should hear some representations, not only of this organization, but any other organization that may have legitimate reasons for wishing to appear before the committee. Further I think that now is the proper time for that to be done, during this sitting of the committee. I can support the motion.

Mr. POULIOT: I support it for the same reason.

The CHAIRMAN: We have only one motion before us and that is all we need be concerned with at the moment. The motion is that a reply be sent to this telegram saying that this committee is prepared to hear this deputation.

Mr. HAZEN: Mr. Chairman, I have here the Standing Committee on Railways and Shipping report of last year. Now the order of reference which is given here says: "Ordered that the Standing Committee on Railways and Shipping owned, operated and controlled by the government be empowered to examine and inquire into all such matters and things as may be referred to them by the house, and to report from time to time their observations and

opinions thereon, with power to send for persons, papers and records." Whether that gives us the power or not to grant this request I do not know. I am a new member of this committee.

The CHAIRMAN: It seems we have a precedent inasmuch as we have received representation from parties already.

Mr. JACKMAN: What is the function of the Board of Transport Commissioners in this regard? Is not that the place where they might go?

The CHAIRMAN: I think undoubtedly the Board of Transport Commissioners has to hear representations.

Mr. JACKMAN: On rates only?

The CHAIRMAN: No, on anything connected with the railway. That is my conception of it.

Mr. JACKMAN: They have technical men experienced in that kind of work.

The CHAIRMAN: The point is, is this committee going to hear these gentlemen?

Mr. JACKMAN: Is there some place set up now other than this committee? That is the point I am trying to arrive at.

The CHAIRMAN: This telegram is before you and I have a motion that these men be heard. I suppose the best way is for those to vote against the motion who are not in favour of it. We will put the motion.

Mr. SHAW: There may be other bodies before which that organization might appear. They have requested permission to appear before this committee. I believe that is the light in which we should consider it.

The CHAIRMAN: The point is this: As chairman of this committee I am not going to assume the responsibility for saying yes or no to these men. Now, you have the motion.

Mr. GRAY: Question?

The CHAIRMAN: The question is, does the motion carry?

On a vote being taken the motion was declared carried.

The CHAIRMAN: Now, we have called Mr. Symington, President of the Trans-Canada Airways, who is a very busy man, to come back and give testimony before this committee. He is anxious to be delayed as little time as possible.

Mr. MAYBANK: Before proceeding with that, may I ask whether the correspondence we asked for has been tabled?

Mr. VAUGHAN: I may be wrong, but I thought it was left in abeyance. Mr. Maybank, I was of the opinion that would be held in abeyance until the Ministers arrived here. As far as I am concerned there is nothing in the correspondence that should not be filed, but inasmuch as my letters were all marked private and confidential, it would seem to me the permission of the recipient ought to be obtained before these letters are filed in this committee.

Mr. MAYBANK: Mr. Chairman, I think the motion of the committee is plain; it was that the correspondence should be filed. The objection is the confidentiality. That was raised by Mr. Vaughan at the time and in spite of that the motion was passed that the correspondence should be tabled. It is my view that correspondence should be here before we go any further into the question with anybody else. You see what it means; it only means that the correspondence be not tabled until we go into this question with other ministers, and get it afterwards.

The CHAIRMAN: The motion was put and carried. Apparently the letters are not on hand.

Mr. MAYBANK: Is the correspondence in the house, in Ottawa?

Mr. VAUGHAN: The correspondence is here, yes sir.

The CHAIRMAN: I think the correspondence ought to be tabled.

Mr. MAYBANK: Since the correspondence is in Ottawa and in the chamber there is no reason why it should not be tabled now.

Mr. DONNELLY: I do not agree with that. I do not think we should ask this man to table correspondence marked "Private and Confidential." I do not think we have any right to do that. I think he has to get the permission of the recipient of that correspondence before he should do it. I do not think any man should be asked to do that sort of thing; I do not think it is fair.

Mr. MAYBANK: That is the motion already passed.

The CHAIRMAN: Exactly. The motion was submitted to this committee and passed. I do not know whether you were in the committee at the time but it certainly was passed, and accepted by the committee. It was evidently considered that we had the power to request this correspondence be tabled.

Mr. DONNELLY: I do not think it is right. I do not think we should do that to any body of men.

Mr. POULIOT: Now, Mr. Chairman, speaking to that it is important to examine the words "private and confidential" on correspondence. By putting the words "private and confidential" on letters do you make them "private and confidential" when they relate to public business? That is one point. Then there is another point which has also been discussed in the house not only by my humble self but also by the leaders of all parties; that was eleven years ago, in 1931. It was relating to correspondence regarding Riviere du Loup station. Mr. King, Mr. Lapointe and Mr. Bennett took part in the discussions, and the matter being discussed was this: is it possible to mark as private, correspondence that was not marked so, and to mark it private after it has been asked for—it is on record in *Hansard* and covers two or three pages—and finally the Speaker decided that the correspondence should be tabled.

Mr. Chairman, if you will permit me further, I may say that the point is that it is a most delicate matter, I admit; but when a letter is on public matters, is it possible for one of the parties to prevent people from knowing about it simply by marking the word "private," "personal" or "confidential" in the corner of the letter?

Mr. MAYBANK: Mr. Chairman; in the very nature of this correspondence there is nothing private or confidential about it, no matter how it was marked. When Mr. Vaughan was spoken to first about it, he said he supposed that that correspondence was marked "private and confidential". I presumed that he was speaking from memory at the time, and indeed it is not until now that it is definitely stated that it was so marked; but enough was said, at any rate, about the correspondence to indicate that it was not, in its nature, private and confidential. This committee is here for the purpose of inquiring how the agent of the Canadian people, the Canadian National Railways, does its business, or how well it has done its business. Last year this committee made inquiries as to what share the Canadian National Railways was getting of government business. The feeling of this committee at that time was that the government business was not being distributed in the way it ought to be distributed. Following up that this year, we turned to the directors and the officers of the C.N.R. and said to them, "Look here, have you done anything about this in the meantime? Have you tried to get any more business?" Mr. Vaughan says, "Oh, yes, we have." We say, "Well, what have you done?" So he tells us what he has done and what he has tried to do and says it is shown in certain correspondence. That is all there is to this correspondence—simply that there is a statement in there as to what they think ought to obtain with reference to the amount of government business to be allocated to them. Surely there is not anything confidential about that. We want to see whether the Canadian National Railway has been on its toes with regard to getting this business. They say

they have. They say that statement is to be supported by correspondence. Let us see the correspondence. That is all. We are here to examine the accounts and the way they do business. There is nothing confidential about that sort of thing.

Mr. GRAY: Mr. Chairman, I rather agree with Dr. Donnelly, although I do feel that it is public business and, therefore, should be produced. But the recipients are here and I imagine would, in a minute, if Mr. Vaughan would say to whom he had written these letters, release them. He mentioned Mr. Ralston, I know, and I think perhaps the Minister of Transport. They would say in a minute, "Release them" and let us get on and find out where we are. If Mr. Vaughan would say to whom these letters are written, I think they would be released at once and we would not get into all this debate.

Mr. DONNELLY: Mr. Chairman, in spite of all that has been said as to whether these are confidential or not, I would submit that this committee is governed by the rules of the house, and we have to conform to the rules of the house. The house will not permit, as we know, correspondence that is marked "private and confidential" to be given to the house or to be exposed in the house; I would advise that you go to the speaker of the house and get a ruling on this as to whether you are permitted to do this or not; because I do not think we are permitted to have this private correspondence made public.

Mr. POULIOT: Mr. Chairman, if you will permit it, I should like to say that you are the boss here, and it is up to you to decide. There can be nothing private regarding the expenditure of money. If a letter is written to anyone regarding the expenditure of money, that letter cannot be private because the people have a right to know where the money goes. Therefore, it is not a basis for privacy. No one can make a letter private by writing the words, "Private, confidential, personal", or anything they like on the corner of a letter before or after it is received. That does not make it private at all.

The CHAIRMAN: Gentlemen, the point is this. Just let us get down to brass tacks. We have a lot of very busy men here to-day, very important men to the nation. We have Mr. Symington and the heads of departments here waiting on this committee to be heard. I am not going to pursue this thing to the speaker or to anybody else; not at all.

We have a motion before this committee and it was accepted by this committee. If there was any demur at any time with regard to it, I do not remember it to any great extent. It seems to me there may have been a slight misunderstanding between ourselves and the president of the Canadian National Railways, and that is probably the reason the papers are not here to-day.

Mr. MAYBANK: They are here to-day.

The CHAIRMAN: Well, if it is not due to a misunderstanding, the only thing in my estimation that can prevent those papers from being before this committee is a refusal on the part of the officials of the Canadian National Railways. I do not see why we need to waste time. If they are prepared to produce these letters and there is no opposition, then I will request them to do so, so that we can get on with the business.

Mr. GRAY: Hear, hear.

Hon. Mr. CARDIN: Mr. Chairman, if you will allow me, I should like to say a few words. As Minister of Transport, I received a number of letters written to me by the president of the C.N.R., as did other ministers I am sure. That correspondence was all marked "private and confidential" to me. I must indicate to you that I have not gone back through that correspondence and read it again—it was voluminous enough—and I do not feel free to lift the limitations placed on that correspondence by the words "personal and confidential." In the letter addressed to me, the main point now under consideration by the committee

may have been covered; but there may also be other points which due to public interests should not be divulged. What is of interest, in my humble opinion—despite what has been said and with all due respect to the opinions that have been expressed already—is this. What does the committee want to know? They want to know if something has been done by the C.N.R. officials in order to equalize the division of traffic between the two railways. The president, I understand, as well as Mr. Symington and others, has indicated that they have made representations to the different heads of the government. I am here to say that, in fact, they have made a representation to different heads of departments and to myself personally. But they have done it in letters which are marked “private and confidential” and which, to a certain extent if not entirely, may be considered as inter-departmental or inter-branch correspondence which is not allowed to be produced in the house. The main object of the inquiry of the committee is to ascertain what has been done. As I understand it, with my very limited knowledge of railway affairs, the officials of the C.N.R. could not do any more than make representations to the heads of the different departments to have a better or a different distribution of the traffic between the C.P.R. and the C.N.R. They have done that. As far as I am concerned, I confirm that. They have made representation to that effect. What does it matter whether a sentence or two sentences more have been added to that. In my humble opinion it does not matter at all. That is no real reason, in my opinion, to justify seeing the wording of the letters. The main point was to know if representation had been made. They have made representation. They have made strong representation for a better distribution of traffic between the two railways.

Mr. POULIOT: Hear, hear.

Hon. Mr. CARDIN: It is clear. I admit that. I must say, to the credit of the C.N.R., whether it was under Mr. Hungerford or under Mr. Vaughan, they have made strong representations to me, and I know they have made them to other ministers as well. But that is the main point which is of importance to the committee, in my humble opinion. The other details, I repeat, which may have been mentioned in the letters and which may appear in the letters are of secondary importance.

Knowing now that the C.N.R. has made representation to the members of the government, the next step is to see what the government has done about it. That seems to me to be the logical sequence. It is not so important to know in what language the request was or whether a letter was addressed to Mr. Howe, Mr. Ralston or Mr. Mulock. I will be frank in stating that the suggestion of the committee of last year has been presented to the government and has been considered. But as all of you know we have been passing through very difficult days, and a number of very important problems have been occupying the minds of the members of the government during the last year. I would not say that anything definite has been done to change the situation. As far as my department is concerned, the Department of Transport, I am ready to say that we have given instructions to divide the business between the two railways in a manner more favourable to the C.N.R. Of course, we have not very much to ship by rail. But this is a matter of government policy which should be given full consideration, I understand, by the government when the government has the time to go over such a complicated affair. It is not an easy thing. It may be, that, on looking over one set of figures, one may come to a certain conclusion; but if you have placed before you another set of figures and another set of circumstances, the whole picture has been changed.

There are all sorts of complications and difficulties that exist in dealing with a situation of that kind, and it was thought advisable not to interfere too much in the matter, in view of the difficult circumstances in which we have been placed. I may say, for the information of the members of the committee, that

last year after the question was raised, I was flooded with telegrams coming from all parts of Canada protesting against the government taking any attitude to interfere with the distribution of business as it had been carried on up to that time. Those telegrams were coming from associations and from individuals representing all sections of the country. I have already started receiving a number of telegrams on the same subject. I did not like it last year because, to a certain extent, I thought that it might have been engineered. It may be so. Lots of things in these difficult days we are passing through are being engineered from some source, but are just the same causing trouble and difficulty. I do not think the time is opportune for the government taking definite action and stating that the business is to be divided 60/40, or any other percentage at all; because I confess that at the present time we have not a full opportunity of going into all the details and studying all the problems; and the minds of the members of the government are busy with very important problems. Speaking for myself, and as a member of the committee, I would not like to have representations coming from any section of the country which would have the result of disturbing the disposition and balance already working out in the best interests, and to the best advantage of the country. We are going through very, very unsettled times, and what is decided to-day may be changed to-morrow, or may be changed next month, or next year, or it may be changed as soon as the war is concluded.

My humble suggestion, with all due respect to those who have expressed their views is that the government should show in that question no real or too extended preference for the one or the other; and I rather think it will meet with the approval of those who are responsible for the administration of the C.N.R. if we leave the railways, which we claim so much are independent organizations—and the C.N.R. thinks of itself as being an independent organization—if we leave them free to fight their own battles.

Some Hon. MEMBERS: Hear, hear.

Hon. Mr. CARDIN: This railway is operating as a private industry, and operating very successfully as a private organization in dealing with other private organizations in this country. Why not just leave them the same opportunity of fighting their own battles. And, if there are any restrictions which have been imposed upon their action, such as any definite percentage which has been established, as far as I am concerned I am ready to recommend to the government; whatever may have affected this question before; I am ready to recommend to the government that any restriction of that kind be removed and that the field be left open for the C.N.R. to fight their own battle against their competitors for the time being. Later on, when times will have become more quiet and more reasonable, and when we have recovered more completely our time and our liberty of action; at such a time this question might be considered in the light of all the circumstances that may be placed before us.

Let me repeat; I am ready, in my position, if it is the wish of the committee, to recommend to the members of the government, the government in council, that if there are any restrictions which are creating any difficulties to the C.N.R. to prevent them from getting what they think should be their fair share of the business, such action as will remove those restrictions. It has been established, for example, the business is to be divided 50/50 between the railways. I am ready to recommend that such restriction be abolished, and that the field be left open. I am expressing my own view. I do not speak for the government, because we have not had an opportunity of discussing fully that matter in council before this morning. However, if it is agreeable to the committee, I am ready to carry that suggestion to the government; that all kinds of restrictions be wiped out for the duration of the war, and so long as the present unsettled situation continues. After the war this question may be brought up again; and if it is, all the circumstances in connection with it can be given due consideration at that time.

Going back to the matter of the correspondence; as far as I am concerned I am ready to agree to a very large extent with the representations that have been made; that it is not always the word "personal" marked on a letter that makes it of a personal character or of a confidential nature. But we have got to keep in mind that when a man writes a letter, if he chooses to have that letter considered purely personal and confidential, some consideration should be given to his feeling in that regard. Otherwise, if a personal or confidential communication is to be exposed to the public I doubt very much if many people would make their representations in the form of letters but would prefer to make them verbally. In my opinion, the marking of a letter confidential or personal is quite proper. At times it is also a protection for the man to whom the letter is being written, as well as to the man by whom the letter is being sent. In the present circumstances I am rather hesitant to express an opinion. I may be absolutely blind on this question, but I think that the most important thing to be considered is the action of the officers of the C.N.R. following the recommendations of the committee. You already have my assurance that they have done all that they could and they have so stated here. We could not ask Mr. Vaughan, any more than we could have asked Mr. Hungerford or the directors of the C.N.R., to go any further than that. What can they do? They cannot do anything more than to make representations to me, to the Hon. Mr. Howe and to the other ministers. It would be your business; dividing it this way, and that way; are you changing the attitude; are you disregarding the percentages that have been established already—they cannot do any more than that. They cannot impose their views upon the members of the government or the ministers. They have done all that they could do in making their representations; and I am here to confirm what they have told you, that they have made those recommendations; and the obstacles—if obstacles there be, have not been removed up to the present time, that is not their fault; because they have gone the limit in making all the representations that they could reasonably be expected to make in the circumstances. If there is any responsibility for not removing the obstacles, if there were any obstacles, or changing the percentage—if there were any established—well, that is the responsibility of the government. And our excuse for not having moved along that line is these difficult times which we have been going through. How many many things of a difficult nature the government is having to decide, things which have been presented to us in that regard.

Mr. POULIOT: Will you permit me one word?

Hon. Mr. CARDIN: Yes.

Mr. POULIOT: I understand that there have been several recommendations from the C.N.R.

Hon. Mr. CARDIN: Yes.

Mr. POULIOT: What I want to tell you, sir, is that had you been alone there would have been only one representation and it would have been successful.

Hon. Mr. CARDIN: I do not know as I could say that.

Mr. MAYBANK: I want to ask the Hon. Mr. Cardin what may seem to him at the moment to be an embarrassing question, but I wish to assure him that I do not intend it to be such. The question seems to me to be solely one as to whether or not these letters are producible. We have them here in the room at the moment. Mr. Cardin says that the letters can hardly be produced after the man who sent them marked on them "private and confidential"; that a man who writes a letter and marks it that way is entitled to some consideration. I think his view in that regard is sound. I do not think any person will dissent from that. When a person writes a letter and marks it "private and confidential", he expects it to be so treated; although, there are limits as to what he can do in that regard. When you are dealing with public

business it is perfectly clear that you cannot hide business from the public by putting certain marks on the letter. But in this case that is all of no importance. We do not have to consider the nature of the letter in this case. You do not have to give Mr. Vaughan any guard, because Mr. Vaughan said, just a short time ago, this morning, that so far as he was concerned it was quite all right to produce the letter. That is on the record there this morning; and I believe it will appear in the record of our proceedings of Friday last; however, I am not sure as to that; but I do know that Mr. Vaughan here this morning stated that so far as he was concerned the letters could be produced. So that sets aside any need of protecting the Canadian National official who marked upon their letters "P. & C.", or any other symbol to indicate confidentiality. Then, Mr. Cardin has not said himself that in the nature of these letters there is anything that should be withheld from the public interest. Mr. Cardin remarked at the beginning that he has not gone over the correspondence in recent times and could not say whether there was in it something that ought to be withheld. That being the case, since no person is here to say that it is not in the public interest—I can conceive of a sentence being in these letters which might not be in the public interest, might not be in the interest of the railroad—as, for example, you can imagine a sentence occurring in the letter where there might be some statement respecting one's own business which one would not like to have made public—there could be such a sentence there which one would not desire to have made public; although, we have not any such information. The minister himself makes no statement at all that there is anything in this correspondence which it would be contrary to the public interest to disclose. Mr. Vaughan, who writes the letter, says it is quite all right to produce it.

Now then, the main part of Mr. Cardin's argument at the moment is something like this: you can take it from me that these men have made representations; you can take that from me, they made representations, and strong ones. Now, when we know that they have made representations, what does it matter? They say: well, of course, that is just a matter of opinion, a matter of feeling. One man who holds the letter in his hand says: now look, Mister, if I showed you this letter it would not do you any good. You can't blame the other man for saying; well, all right, show it to me anyway. Now, that is the position in this committee. Mr. Cardin's statement was that they have made representations; what do you care about the phraseology. Well, I appreciate his judgment in that way; but neither he nor anyone else can blame me if my judgment is the opposite; but I say that in spite of your opinion as to this letter, I would still like to see it; and I still think that the public might like to see it too. But quite independently altogether of whether or not the public might, my opinion is that we are certainly entitled to present our case with regard to it here this morning.

The balance of what was said, regarding the division or distribution of business, of course, is not germane to the discussion we are having here this morning; not yet. That is one of the matters to come up here. Perhaps all of this will lead up to it. I am not asking that there be any particular division; not at the moment. In fact, that is the position I have taken before. It seems to me that the best thing would be to give the C.N.R. and the C.P.R. a free hand and let them go ahead; no hold barred, no restrictions. Mr. Cardin indicated that he is not going—trying at any rate—to see that there be any guaranty that the C.N.R. obtain such and such a percentage of the business. That is all right as far as it goes. I may want to deal with that a little more specifically and at greater length at some convenient time.

At this moment we are dealing with the question of whether or not the public are entitled to know what the C.N.R. has done and likewise what the government has done with respect to the C.N.R., and no person has advanced

any argument here this morning as to why the letters should not be produced, excepting that there are a couple of words which are not efficacious in the first place in holding back this type of information. On first principles those words are not efficacious and in the second place if they were ordinarily efficacious, the writer of the letter says "wipe them out; we do not want that protection"; and the receiver of some of the letters does not say, "it will be against the public interest to produce them". I think those letters ought to be before us in order that we may see the case before we go further.

Hon. Mr. HOWE: What you are saying is that Mr. Vaughan, President of the Canadian National Railways, cannot write a letter to Mr. Cardin who represents the shareholders of the railway unless he is prepared to publish that letter in the paper.

Mr. MAYBANK: No, I did not say that.

Hon. Mr. HOWE: That is what it is in effect.

Mr. MAYBANK: No, I do say that Mr. Vaughan has written a letter which he says he does not care whether it is produced or not and Mr. Cardin has not said that the nature of the business is private and confidential—

Mr. VAUGHAN: I do not think I went quite that far.

Mr. MAYBANK: I admit I am interpreting your remarks.

Mr. VAUGHAN: I said providing the ministers are agreeable. There just happened to be a few things said in regard to the competitive situation as between ourselves and our competitors that I do not think it would be desirable to place on file.

Mr. POULIOT: In the mass of public correspondence—

The CHAIRMAN: Are you through, Mr. Maybank?

Mr. MAYBANK: No.

The CHAIRMAN: Well, finish with what you have to say and let us get done.

Mr. MAYBANK: I want to make it clear in the first place—and I thought every person knew it—that I was not endeavouring to quote Mr. Vaughan verbatim, and my rendering of what he stated was, of course, my interpretation, and I emphasized that fact. Now, I wish also to make clear that I can quite understand that there may be a sentence in this correspondence of the type that Mr. Vaughan has described, and I think if there is such a sentence, and if that be the point raised that that can very easily be resolved. If you say let us check this over and see if there is a particular sentence in there relating to our competitors and giving information to our competitors well, obviously that comes within that class of sentence that it is not in the public interest to disclose, and that sort of thing can easily be kept out in the production of the papers; copies could be produced and no problem will be involved there at all.

The CHAIRMAN: I am suggesting now that it is a matter that could be debated for the next three weeks and we would be no further ahead. The position of the Chair is simply this, that a resolution has been passed in this committee and accepted by the committee for the production of certain papers. The Minister of Transport has declined to produce the papers; and it seems to me that the matter before the committee is to ascertain how many are willing and how many are not willing to produce certain papers. I do not think all the debate in the world will get us any farther.

Mr. MAYBANK: That resolution in the committee was that the Canadian National shall produce those papers. The chief witness before this body, namely, the Canadian National Railways, has stated that certain things were done by it and that organization is asked to substantiate the statements by producing the correspondence. That is the position.

The CHAIRMAN: The Minister of Transport has declined respectfully to have certain letters produced to the committee. Now, if that is the position what is the use of wasting time about the matter. Let us go on with something else.

Hon. Mr. CARDIN: Mr. Chairman, if you will permit me one word. I should not like my attitude to be interpreted as making a flat refusal to a request which has been passed by the members of this committee. That is not my attitude exactly. I confess very frankly that since the resolution has been passed I have not had an opportunity of going back over that correspondence and reading all the letters that have been sent to me marked personal and confidential, and I would not feel free to give a blanket promise to produce those letters for fear there might be something in that correspondence that would create some embarrassment for the railway, the welfare of which we are working to achieve. At the moment frankly I would hesitate very very much to agree to the production of that correspondence. With regard to that correspondence and what was in it—and you need not necessarily take my word for it—nothing more could have been expressed by any president of the railway than what has been expressed by Mr. Vaughan. Suppose that instead of having written me those letters Mr. Vaughan had chosen to come to Ottawa and make his representations verbally, would you be better informed than you are by the declaration I am making to you now? If strong representations had been made by him and the officers of the railway and certain delay has marked action in that matter it is not due to Mr. Vaughan. I am always afraid that, by producing letters or documents, even if they are not of great importance, which have been marked “personal” by the sender and letting them be divulged and make public, it might not be an advantage to the officers of the government; because if those letters which are received marked personal and confidential are going to be published and if we are going to establish a rule that they are liable to be published, a lot of people are going to come to Ottawa rather than write, and they will want to make their representations verbally instead of writing the word “confidential” on their letters. We admit that there are limitations. Before I express my views, there may be limitations and I will admit those limitations; but as a general rule I do not very much like to accept that interpretation with regard to a personal letter,—even if there is practically nothing in it,—that we should refuse to recognize the principle that the sender has a right to mark that letter personal and has a right to have it kept personal. Even the person who receives the letter may be interested because the release would come from the person who receives the letter and answers it, because an answer has gone with that letter. Personally, I would not like that practice. Mr. Chairman, you will pardon me for expressing my view; it was not a positive refusal; I do not want to take that stand before the committee.

The CHAIRMAN: The position of the chair is this: the Chairman finds himself in a rather difficult position because what he has to ascertain is whether these letters are going to be produced or not, and if they are not going to be produced we should go on with something else.

Mr. NICHOLSON: With regard to the discussion which has taken place for the last half hour regarding the production of papers I would suggest that we hear the cabinet ministers and then we can discuss this matter later.

The CHAIRMAN: Yes, I wish to tell the committee that we have brought Mr. Symington here this morning.

Mr. POULIOT: Is it not according to the minister's knowledge that very often letters are marked personal just to have them brought to the personal attention of the minister?

Hon. Mr. CARDIN: Yes.

Mr. POULIOT: And those letters are not personal at all?

Hon. Mr. CARDIN: Yes, that is absolutely correct; but when they are marked “personal and confidential”, as all that correspondence is marked as far as I can remember, I do not feel free to divulge it, although I may later on if the committee insists. I will go through that correspondence at the request of members of the committee. I shall be only too glad to do that.

The CHAIRMAN: Gentlemen, there is a motion before the chair, moved by Mr. Nicholson. First I shall state the motion and you can go on talking to the motion. The motion is that the committee proceed to other business and that this matter be allowed to stand.

Mr. LOCKHART: Is that motion not open to discussion?

The CHAIRMAN: Yes.

Mr. LOCKHART: We have had this matter come before this committee in past years. Matters were raised in connection with Trans-Canada Airways and it was considered not to be in the public interest to divulge those matters; still it was considered that those matters were of interest to this committee and that the committee had a perfect right to have that information. The information was divulged to the committee. The room was cleared and only members of the committee were present, and we got along very amicably and without difficulty. It seems to me that we are possibly straining at a gnat and swallowing a camel in trying to adhere to technicalities too closely. I think the committee can get the information concerning the major portion of what we are asking for, but I do not see why we should be going on with this discussion indefinitely. I recall that these matters have come up before and we have been able to get over the difficulties by giving certain information which satisfied the members of the committee but which was kept off the record.

Mr. MAYBANK: The ministers have come here to make statements with reference to the manner in which their departments work vis a vis these two railways, and it seems to me that those statements ought to be made in the light of the representations made by the Canadian National Railways. Those statements cannot be as complete as we should like to have them until we have these other representations before us. I have no objections whatsoever to the correspondence being scanned now by Mr. Cardin or anybody else with a view to ascertaining whether there is anything in that correspondence—whether there are some sentences in that correspondence which it would not be in the public interest to disclose. However, that part of the motion which suggests asking the ministers now to make statements is wrong because we would be going at this thing piecemeal; the proper time to get a disclosure by the ministers with respect to their departments vis a vis the railways is after we have these representations before us so that we will be able to relate the one to the other; and if time is necessary to look into this correspondence to see whether it ought to be produced or not, that is all right. Then when the decision thereupon is communicated to us, and when the documents are produced, as I feel sure they would then be, that would be the time for us to ask the ministers with reference to the working of their departments, and not now.

Mr. HAZEN: The resolution we were discussing previously asked that the correspondence exchanged between the various ministers and their departmental heads with the president of the railway be produced.

Now Mr. Vaughan, it seems to me, cannot produce the letters that he wrote to the ministers and to the departmental heads. These letters are in the possession of the ministers, and if they are produced they will have to be produced by the ministers. The only letters that Mr. Vaughan can produce are the letters that he received from the ministers. He has their letters and they have Mr. Vaughan's letters.

Mr. MAYBANK: He can produce the copies.

Mr. HAZEN: We might get over that this way, if the other resolution provided that the ministers be called and examined; at the time of the examination they could be asked if they received letters from Mr. Vaughan. They could then be asked what the letters contained. They could go through the letters and the part they object to could be discussed and it could be decided

whether or not the information to which they object should be given to the committee. The letters are in the possession of the ministers and when they are called and examined they could put those letters in evidence or not, as they see fit, or they could give us evidence as to the parts of these letters that they should leave out, the parts which they consider are privileged.

Mr. GRAY: Quite apart from the motion in respect to correspondence, following out Mr. Nicholson's motion, it seems to me if at this time we had a statement from the ministers, and it is understood they would deal similarly with the matter as Mr. Cardin has done here, following the representations that had been made by the heads of the Canadian National with respect to government business, how it has been dealt with by their departments, how they look upon it, etc., if that was understood I would support Mr. Nicholson's motion to get on.

Mr. SHAW: Mr. Chairman, there is one matter that I should like to have perfectly clear. The minister stated during the course of his remarks that the C.P.R. is independent. He used that term. I understand that we are discussing the railroad owned and operated by the government. I should like to ask the minister what they are independent of and whom they are independent of. He was speaking of the competitive aspect of the business as between the two railroads.

The CHAIRMAN: Are you speaking to the motion?

Mr. CARDIN: Probably my expression was not the proper one. I meant the privately-owned organization, the public-owned and government-owned organization. That was what I meant.

The CHAIRMAN: I think we should endeavour to get rid of the business before the chair. We have a motion before the chair and I think the remarks of the committee should be pertinent to that motion. The motion is that the matter of correspondence be allowed to lie for the time being and the committee proceed with other matters and the ministers be heard. That motion was moved by Mr. Nicholson and seconded by Dr. Donnelly. I am going to put the question and I am going to ask those in favour to stand.

Mr. MAYBANK: I should like to move an amendment to that, Mr. Chairman. I should desire to move an amendment, if I can have a seconder, deleting that last clause of the original motion that the ministers be now heard. My amendment would change the motion to this effect. That the matter of the production of these papers be allowed to stand. I, of course, apprehend that Mr. Nicholson means that it be allowed to stand in order that immediate decision be made.

Mr. SHAW: It may be inquired into at a later time.

Mr. MAYBANK: The latter part I am moving should not be in. I see no use going ahead with the statement of the ministers until we have this correspondence.

The CHAIRMAN: It is moved by Mr. Maybank that the last clause in the main motion be deleted. All those in favour of the amendment please signify.

Mr. NICHOLSON: Is there a seconder?

Mr. POULIOT: I second it.

The CHAIRMAN: The amendment has been moved and seconded.
Amendment lost.

The CHAIRMAN: Those in favour of the original motion please signify.

Mr. LOCKHART: Read the motion.

The clerk reads the motion.

Mr. MAYBANK: Before that is put I would ask this question by way of clarification. I take it that it is implicit in the motion that a decision relative to the production of these papers will be given to us by Mr. Cardin or the appropriate ministers very soon. It is implicit in that, is it not?

The CHAIRMAN: Well, the matter of the production of papers is to lie on the table for the time being, while we hear the ministers of the government. That is my conception of the motion.

Mr. HAZEN: That means we cannot ask the ministers anything about the letters they received.

The CHAIRMAN: I think you can ask them anything you like.

Motion carried.

Mr. MAYBANK: Mr. Chairman, I should like to draw your attention to the fact the motion obtained a unanimous vote, at least.

The CHAIRMAN: Committees have a powerful faculty for killing time and wasting it.

Mr. GRAY: Who is first, Mr. Chairman?

Hon. Mr. CARDIN: I do not know that I can add very much to what I have said already. I have stated that the recommendation of the committee has been placed before council and discussed. No final decision as a matter of policy has been arrived at due to the peculiar circumstances. I suppose as far as the Department of Transport is concerned it was expected that we would act more quickly than the others and probably take a greater chance. The information that has been passed to me is that in the contracts entered into by the Department of Transport it has been stated to the contractor, as far as possible—rates being equal—to route all materials and men over the Canadian National. As a matter of fact and as a result of the action the amount that has been paid to the C.N.R. is \$304,000 and the Canadian Pacific \$205,094, amounting to a division of 65 to 35 in favour of the Canadian National. Of course we do not transact very much business in the Department of Transport. But in so far as sustaining the C.N.R. is concerned that is a fair indication of the trend of the business of the Transport department. That is a concrete fact, and the result of the attitude which has been taken following the recommendations of the committee of last year.

The general impression with regard to the amount of business of the Department of Transport and myself, as it may be explained probably by other ministers who are responsible for the moving of a larger amount of traffic than the Department of Transport moves, is that there are many, many factors that could be taken into account when dealing with a matter of that kind. I can only state as Minister of Transport the government has not as such taken any definite stand and given to any department any direction as to the movement of the traffic for which they were responsible.

I understand that a certain number of years ago a statement was made that the business should be divided 50-50. I am not sure that rule has been followed exactly when you take all the factors into consideration. But once again I want to repeat, if it is the wish of the committee I am ready to make representation to council to consider when circumstances permit the wiping out of any statement or any direction that has been given as to the division of traffic 50-50 as between the two railroads, and leave the two railroads to fight their own battle with the different departments of the government. I guess that is as far as I can go. My department is not very much concerned about the great bulk of the traffic as we have not very much to move. That is the action we have taken in the Department of Transport.

The CHAIRMAN: Mr. Howe, will you say a few words to the committee? I think what the committee is after is a general outline of the considerations that obtain in the matter of the movement of traffic over the two railroads.

Hon. Mr. HOWE: I may say before the inception of the Department of Munitions and Supply I discussed the relations of the railways with both presidents. I gave it to them as my view that traffic should be allowed to move

in a natural way. I said where we were establishing new plants, new industries, we would place them on both railways if no additional expense was involved. Obviously it is an advantage to industry to be on both railways. If that was not convenient to the department we would put them on whichever railway was convenient or other circumstances dictated and that the business would naturally move over the railway on which the plant was placed. Both railways expressed themselves as satisfied with that, and as far as we are concerned we did not attempt in any way to dictate the movement of traffic. The solicitors of both railways have been free to do their work with whoever was operating the various plants. Personally I have had no objection. I do not recall that letter Mr. Vaughan wrote me. I think I got a letter from him, or perhaps two. My own special reference to the Department of Transport or as far as we are concerned was there is no hard and fast division. The business moves the most convenient way at the time for each particular shipment.

Mr. GRAY: If there are limitations in some of the departments you are quite satisfied there is none in the Department of Munitions and Supply?

Hon. Mr. HOWE: No.

Mr. DONNELLY: May I ask one question because of what has been said? Goods going from a competitive point to a competitive point, the route is decided by whom? Who decides which railroad it is to go over?

Hon. Mr. HOWE: The traffic officer of the department. As far as I am concerned, I presume it is natural in a case like that, as you can readily assume, to divide more or less 50-50 between competitive points. The traffic officer decides that to keep himself out of trouble, and by doing that the division of the business naturally divides itself in the larger proportion to the railway having the most mileage and the greater number of non-competitive points. That is inevitable, I think. I would guess that our traffic divides itself in this way. I was talking with our traffic officer, and as near as he could calculate, traffic seems to divide itself roughly 60-40, 60 for the C.N. and 40 for the C.P. That very naturally comes from the fact that the C.N. has more mileage than the C.P.R. and territories that are exclusive.

Mr. DONNELLY: It has been checked up?

Hon. Mr. HOWE: I asked for a check on Saturday when I got the advice that this committee was interesting itself in this; and while time has not permitted an accurate check, that is the view of the traffic officer as to about the way in which the business divides itself.

Mr. SANDERSON: Mr. Chairman, did I hear the minister aright to say 60 per cent to the C.N.R. and 40 per cent to the C.P.R.?

Hon. Mr. HOWE: Roughly I should think, yes. I could not say about 70 or 72 per cent. I would guess traffic moves in about that relation.

Mr. DONNELLY: That is the whole business?

Hon. Mr. HOWE: The whole business of the department.

Mr. DONNELLY: Can you give us definitely from competitive point to competitive point as to how it is supplied?

Hon. Mr. HOWE: The railway might. I do not think we could.

Mr. DONNELLY: I think that is important.

Hon. Mr. HOWE: There has to be an exhaustive breakdown.

Mr. DONNELLY: I agree that where it is from a competitive point to a non-competitive point, there is no question at all; it has to go by the road which is carrying it. But where it is going from competitive point to competitive point, that is what the committee is interested in entirely.

Hon. Mr. HOWE: Neither railroad has objected to the manner in which that business is divided. I think we can assume that over-all business is divided pretty well between the two systems in relation to their mileage.

Mr. HANSON: Mr. Chairman, the minister says that he is having this looked into. I wonder when he gets that if he would file the information.

Hon. Mr. HOWE: Frankly, I do not know that we have enough records to do it. It is very hard. We have to check each individual shipment and decide whether it is competitive or non-competitive and total them up. It runs into, I suppose, a great many million dollars; possibly over one hundred million dollars. It might be a very serious job to undertake. The railroad would be in a better position to do it than we would.

Mr. HANSON: I do not mean to get it absolutely exactly. If we got rough figures, it would give us something to go on.

Hon. Mr. HOWE: My impression is that it divides itself about in that way.

Mr. NICHOLSON: Take shipments from Winnipeg to Montreal for a year. Would there be too much work in connection with that?

Hon. Mr. HOWE: Where they are coming from two or three plants, probably we could. But all shipments—there again it would be quite a job. I will see what can be done. I will ask our traffic men to track it down as well as they can, on that particular movement from Winnipeg to Montreal and see what we can do about it.

Mr. POULIOT: What company has the shortest route from Montreal to Halifax?

Hon. Mr. HOWE: Montreal to Halifax mileage?

Mr. POULIOT: Is it the C.N. or the C.P.?

Hon. Mr. HOWE: I think probably the shortest mileage would be a combination of the C.P.R. and C.N.R.

Mr. POULIOT: There is not a great difference?

Hon. Mr. HOWE: Not a great difference, no. The rate is the same. The movement is about the same and we would not pay much attention to the mileage. We would not be interested in that.

Mr. POULIOT: But there is a slight difference in the mileage?

Hon. Mr. HOWE: Yes. I really do not know the answer to that. I would guess that the line across Maine is probably shorter.

Mr. MAYBANK: You would guess which?

Hon. Mr. HOWE: The line across Maine.

Mr. SANDERSON: Mr. Chairman, when the committee met last year there were some figures given to the committee, I think, by Mr. Armstrong. It was in the report of last year as to government business with the two railroads. No figures have been given yet this year; at least we have not come to them. Have you got those figures for this year?

Mr. ARMSTRONG: No, sir. Those figures were filed as a return in the House of Commons. They were not supplied by the railway. They were supplied by the department. We merely took from the return that was filed in the House of Commons.

The CHAIRMAN: A little louder, Mr. Armstrong, please.

Mr. ARMSTRONG: I say we merely took the figures from the return which was filed in the House of Commons.

Hon. Mr. HOWE: If I may be allowed to make a further statement, I should like to say that I think things are much too serious now to worry greatly about the competitive position in anything. As a matter of fact, both railways are practically hauling everything that the capacity of the line will permit them to haul. Why we should worry, when we are running a war, as to whether one railway gets a few dollars more than the other railway, I cannot see. I do not think, in my job as Minister of Munitions and Supply, that I would care to

worry very much about that. I know in dealing with private firms we do not worry very much as to whether one firm is getting more business than another firm. The thing we worry about is whether in the total we can get the maximum amount of production from both. I think it is the duty of the railroads in this country to give service and make that service attractive to shippers, and get business accordingly. I cannot imagine in times like these that it is the duty of the government to set up arbitrary divisions.

Mr. MAYBANK: I just want to say a word in answer to that. I would not like to let it go unanswered. It is not a question of dollars and cents solely. It is a question of men being unemployed.

Hon. Mr. HOWE: What men?

Mr. MAYBANK: Well, as a matter of fact there are railroaders desiring to present information on that, according to the information so far before us. The feeling is that the Canadian National Railways has unemployment and the other railroad is crying out for men. That is one answer to what has been said. It is not just a question of dollars and cents for the moment.

Hon. Mr. HOWE: As a matter of fact, gentlemen, there is no unemployment in this country. If you can show me a thousand men unemployed to-day, I can tell you exactly where they can be employed, at very excellent wages. This country is short of employment from end to end.

Mr. MAYBANK: All right.

Mr. SHAW: Mr. Chairman, I should like to ask Mr. Howe if his statement applies to unskilled as well as skilled men.

Hon. Mr. HOWE: Both.

Mr. SHAW: That seems contrary to a recent radio broadcast that said—and I believe it is a censored broadcast—that unemployment in this country had increased by 5 per cent since January.

Mr. DONNELLY: Who said that?

Mr. SHAW: It came over CFBN in Calgary in a news broadcast about three weeks ago, and if that is correct, I would not say that your figures with regard to unemployment would stand up.

Hon. Mr. HOWE: If you can deliver me a thousand men at Ottawa, I will be very pleased to use them at Sudbury to-day. If you deliver me five thousand, I can use them at Arvida.

Mr. SHAW: You will take skilled men, but you will not take unskilled men, will you.

Hon. Mr. HOWE: I will take labourers, men that can use a pick and shovel.

Mr. SHAW: I am extremely glad to hear that, Mr. Chairman.

Mr. CHAIRMAN: Gentlemen, order. Mr. Vaughan would like to make a statement which he thinks would clarify matters and shorten the debate.

Mr. VAUGHAN: I will stand up, gentlemen, so that you can hear me. I thought perhaps a statement from me might clarify the situation in respect to the position of the Canadian National Railways. Figures that may be brought here, it seems to me, would not be of very much significance, because they would include all the competitive and non-competitive business of the departments. Of course we, being so much larger than the C.P.R., have much more non-competitive territory. All that territory would belong to us exclusively. The C.P.R. non-competitive territory would belong to them exclusively. All we are asking for is that the field be left open, and that where there are any instructions in effect to-day that the C.P.R. is to get 50 per cent of the business, that they be lifted and the field left free to both railways.

Mr. POULIOT: Mr. Chairman, if you will permit me, I should like to say one word. Mr. Howe said, "What is the difference of a few dollars in times like

these?" Well, the difference between one-third and one-half is much more than a few dollars, and it must be kept in sight. There are thousands of men who could be employed by using the difference between one-third and one-half of the business.

The CHAIRMAN: I presume the committee wishes to proceed with hearing the ministers. I will ask Mr. Mulock to proceed.

Hon. Mr. MULOCK: Would you mind allowing Colonel Ralston to go first? He would like to get away.

The CHAIRMAN: Very well.

Hon. Mr. RALSTON: Gentlemen, this matter only came to my attention on Saturday. Mr. Vaughan brought it to my attention in September last year. At that time he left with me a memorandum which I have no objection to producing, setting out his grounds for the consideration of the department in connection with the placing of freight. I knew nothing at that time—I do not think I had ever made inquiries—as to whether there was any arbitrary division of freight or not. I did make inquiries then and I ascertained that there was a working principle in the department away back in 1933 which was on the general basis of 50-50 between the two railways; but on that point I was going to say more honoured in the breach than in the observance, but that is not so. But that had been construed, if it was acted on at all, as meaning perhaps 50-50 in competitive territory; and the C.N., as it had more non-competitive territory, had extra business. As a matter of fact, I ascertained from our officers that this so-called rule has not had very much effect. I am speaking particularly of personnel—that is to say passenger business. I think what they do is to bring the two railways in when they have a movement and make distribution between them. I do not know whether the railways are ever satisfied, being competitors, but at least my officers tell me when they go out they do not seem to be dissatisfied about the allotment which has been made. I had the thing gone through and I am bound to say I cannot speak on any basis of a close calculation.—I had the financial superintendent do what he could in connection with it, and I think I am stating it approximately accurately when I say that the amount of money which has been paid to the two railways or the amount of money on which the two railways have gotten the benefit,—perhaps I should say, was divided in something along the line of 60-40; that is, 60 for the C.N. and 40 for the C. P. You will understand that you have got to get the figures showing the total amount paid to the C.N.R. and the total amount paid to the C.P.R. That does not mean that those railways get the benefit of that, because in either case, if you have traffic originating on the other road, there is a certain amount to be paid for the last half of the haul to the other railway. We know nothing about that whatever. The only way you could get that information would be from the railways themselves. Similarly, with traffic originating, for instance on the Canadian National Railway—at least, passenger traffic—from any particular point and proceeding by steamship going C.P., the whole amount might be paid to the C.N. and the C.N. would have to pay the C.P. for the steamship rate. So it is a very difficult thing. So they advised me to get a breakdown which will give you what you really want if you feel that there must be some sort of meticulous division between these railroads. It is very difficult to get figures which will tell you exactly what was the position, and I am only giving you roughly what my officers give me, namely that they think the result is about 60-40. That is to say, the actual effect of the payment is in the ratio of 60-40. I just want to say that the only possible matter of discussion between the two railways must be competitive business; that is to say, in so far as one railway has exclusive territory, there is nothing else to it. It has to get the business either way. The whole question is the matter of competitive business. I might state briefly,

like Mr. Cardin, that I have not discussed this in council at all. As I see it, I have not the slightest objection to taking off any implied principle that there may be of a 50-50 basis on competitive business, if that is thought the proper thing to do. But I should like to discuss it with my colleagues first. This is not any direction to my officials in the slightest, because I do not care what they do as long as they see this job is done efficiently and cheaply and we get the service as fast as possible and these goods moved, but I would anticipate that if I do not give instructions to the official to decide as to the division of the traffic or refuse to give any instructions, he finds his own solution for it; and where the service is equal, and where the distance is equal and the time is equal, I would imagine you would not find very much difference in what exists to-day, namely a division of 50-50, because that is the easy thing to do, under the compromise system. But I would be perfectly happy, knowing the officials, to give them discretion to do whatever they think best in connection with the awarding of the division of traffic, having only one principle in mind, and that is the principle of convenience of shipping, quality of service and cost.

Mr. GRAY: What were the instructions you mentioned earlier of a 50-50 nature? Were they written instructions?

Hon. Mr. RALSTON: In 1933.

Mr. MAYBANK: They are written.

Mr. GRAY: Originating from what source?

Hon. Mr. RALSTON: In 1933.

Mr. POULIOT: They have not been amended since then?

Hon. Mr. RALSTON: They have not been amended in the sense of actually changing the letter.

Mr. DONNELLY: Was that just from competitive points?

Hon. Mr. RALSTON: I am giving you just what has been acted on. They have not been acted on, in this way; that is to say, they have not lumped together all the dollars by each railway.

The letter might have a bearing on it. The letter was sent out by the Quartermaster-General under date of June 24, 1933.

Mr. GRAY: That would be to all—

Hon. Mr. RALSTON: District officers.

Mr. DONNELLY: Does that apply only to freight, or to all railway work?

Hon. Mr. RALSTON: That applies to both personnel and freight.

Mr. GRAY: Can we take it, Mr. Minister, that as the matter stands now, you would be willing, so far as you are concerned personally, that any restrictions should be removed or withdrawn in so far as they apply to officers of your department?

Hon. Mr. RALSTON: I would not remove them from the files, I would just suspend them.

Mr. HANSON: That arrangement was made in 1933, that it should be on a 50-50 basis. I remember that, because I happened to be a member of the committee at that time. Could you tell me if there was any consideration given to mileage, employees, and so on?

The CHAIRMAN: He (Hon. Mr. Ralston) is making a statement, as you see. That was in 1933.

Hon. Mr. RALSTON: Yes, in June of that year. As I was saying, it is left entirely to the discretion of the D.S.C. or the Quartermaster-General, as to what amount should be allotted to the different railways. I will undertake to see that before very long there will be a statement issued by the minister in this connection.

Mr. MAYBANK: You were saying that you have a memorandum there from Mr. Vaughan; would you be willing to file that with the committee, would you have any objections to that?

Hon. Mr. RALSTON: This is headed: "Memorandum of Reasons for Traveling and Shipping Via C.N.R." It would be quite all right so far as Mr. Vaughan stands; there are some notes at the top of it which were placed there for my information. I am sorry I have not a copy at the moment, but I will see that the committee is supplied with a copy for its use.

Mr. MAYBANK: I apprehend from what Mr. Vaughan said this morning that the nature of his representations, and the nature of all the representations of the Canadian National, were to the effect that they should be given a free hand, and that the 50 per cent rule be wiped out; am I right about that? Is that referred to in that memorandum?

Hon. Mr. RALSTON: No, Mr. Vaughan in this memorandum—I think you had better look at the memorandum. I think the memorandum itself indicates the proportion he thinks the C.N.R. ought to have.

Mr. POULIOT: Are we to have your memorandum?

Hon. Mr. RALSTON: I did not have any memorandum. I did not write a letter about it at all.

Mr. MAYBANK: Did you not make a verbal answer to it at the time?

Hon. Mr. RALSTON: No, I did not. I was satisfied that the 60-40 division was not far off from being fair.

Mr. DONNELLY: Does the 60-40 division apply only to passengers and freight?

Hon. Mr. RALSTON: It applied to passengers, freight, telegraph and cable, and so on.

Mr. DONNELLY: Could you break that down and tell us the division as between passenger and freight and so on?

Hon. Mr. RALSTON: No, I cannot. I stated at the outset that I did not get a specific statement with regard to it. The officer who made the computations said that he thought that the division of traffic in non-competitive territory has been taken into account; and he ventured to say roughly that it was a 50/50 distribution. Where there is competition, the C.N.R. gets roughly 60 per cent and the C.P.R. 40 per cent.

Mr. SANDERSON: Would it be in order to have that letter read and put on the record?

Mr. GRAY: He is going to file it.

Mr. SANDERSON: Pardon?

Mr. GRAY: Mr. Ralston said that he would file that correspondence.

Mr. MAYBANK: That would become a part of the record, not just filed as an exhibit?

The CHAIRMAN: I think it should become a part of the record.

Mr. MAYBANK: It should be printed in the record.

The CHAIRMAN: If the minister is prepared to let it be filed on the record it can go into the minutes.

Hon. Mr. RALSTON: This memorandum is not marked "personal".

Mr. MAYBANK: I just wanted to get it read into the record so that we would not have to go someplace else to look at it.

Mr. DONNELLY: Mr. Chairman, I move that it be printed in the record.

The CHAIRMAN: That is understood, that it is going into the record.

Mr. JACKMAN: From listening to the minister I would gather that apparently the government controlled business is divided about 60/40—60 per cent

to the C.N.R. and 40 to the C.P.R. In last year's minutes of proceedings at page 119, Mr. Fraser was on the stand and he said:—

But our best judgment is that the government-controlled business is given in the ratio of 45 to 55. The Canadian National participates at a maximum of 55 per cent.

And Mr. Vaughan has made representations to the various ministers in regard to this traffic. He must have had fairly accurate figures. Would he care to state to the committee what is in his records in that regard?

Mr. VAUGHAN: We have no such records, because the amount of money paid the competing railway would only be in the records of the Dominion Government. We would have no way of knowing the amount of business paid for by the government to the Canadian Pacific Railway.

Mr. JACKMAN: What leads you to your impression that the C.N.R. is not getting a fair division of the business?

Mr. VAUGHAN: From reports coming to us from our various traffic officials throughout the country from Vancouver to Halifax. There is certain business that is going away from us which we think we ought to get. But, as I said a little while ago, we are not asking for any favours. We are entitled to over 65 per cent of the business of the country by reason of our larger mileage, and our greater non-competitive territory. There is no doubt about that. What we say is: lift the restrictions, and leave the field open. There is the impression in the minds of the officers of some of the departments of the government that they must see that the C.P.R. is protected to the extent of 50 per cent. Now, we do not ask for any protection; we say, lift this restriction and we will take our chance at getting the business we are entitled to.

Mr. JACKMAN: Your experience would seem to indicate that officers in the departments are not obeying this direction from the government, in respect to your railway getting 60 per cent and the other 40 per cent.

Mr. VAUGHAN: Yes; but very frequently when our officers interview officials of the various departments they say; now, we can only go so far, there is additional business that we would like to give you; but we are restricted by this order and we cannot go beyond it.

Hon. Mr. HOWE: Did that ever happen in connection with the Department of Munitions and Supply?

Mr. VAUGHAN: No, sir.

Hon. Mr. RALSTON: Can Mr. Vaughan tell me the name of any officer in the Department of National Defence who has ever said that to him? I may be sticking my neck out in asking that.

Mr. VAUGHAN: I think Mr. Fraser can answer that.

The CHAIRMAN: Mr. Fraser will answer that.

Mr. FRASER: It has been personally so reported, yes, Mr. Chairman; quite frequently so.

Hon. Mr. RALSTON: Colonel Lawson is here; he will tell us.

Mr. POULIOT: What you don't know, Mr. Vaughan, is that all the—

Mr. DONNELLY: Just a moment; we have a witness before us at the moment.

The CHAIRMAN: Are you through with the witness, gentlemen?

Some Hon. MEMBERS: No.

Mr. MAYBANK: Mr. Chairman—

The CHAIRMAN: Just a minute; there is a little mix-up here. There is a witness before the committee and I think someone wanted to ask him some questions.

Mr. HANSON: Yes, that is the traffic manager of the Department of National Defence.

The CHAIRMAN: Yes, in connection with the Department of National Defence.

Hon. Mr. RALSTON: I asked Colonel Lawson and Mr. Fraser whether any such statement had been made to him by any official of the Department of National Defence at any time, and he said that it apparently had been reported. I wonder if Colonel Lawson has anything to say about such a statement ever having been made by him?

Colonel LAWSON: Mr. Chairman, I remember such reports reaching me. I am chiefly concerned with the transportation of personnel. You must understand that there are other branches in our department; namely, the Royal Canadian Ordnance Corps, who have their depots all over the country from coast to coast. But, as far as personnel are concerned, we make it a practice, as Colonel Ralston has said, to bring into our movement control office whenever there are any movements of troops contemplated the representatives of the railways and we arrange in an amicable way to divide the business as best we can, considering all the circumstances.

I spoke about this matter to Colonel Ralston this morning and I made the unhappy remark that both railways went away satisfied. He said, you are a liar. What I really should have said was that they went away apparently satisfied. But, as far as freight shipments are concerned, Mr. Chairman, I have had no incidents reported directly to me that shippers had been actually tied down to the yardstick of 50 per cent.

Hon. Mr. RALSTON: I just want to say one further word; and that is about this statement. I do want the committee to understand about this 60/40 reference which has been handed to me, that it must be revised to make it properly applicable. Mr. Fraser has indicated that he thought the division of business was about 55/45. I am not in a position to contradict him; he may be right in feeling that way about it. We have only the record of the amount of money paid each railway. We have no record of the amount which passed from one railway to the other with respect to two-line traffic. We have to approximate that.

Mr. JACKMAN: I did not, of course, question the statement of the Minister of National Defence (Hon. Mr. Ralston). I merely wanted to get the point of view of the railway officials themselves. And apparently Mr. Fraser had made this statement, that there is a very definite rule; but I would quote from what he said in the minutes of last year, at page 129 of our proceedings:—

You see, the two railways today solicit for government business just as they would for any other business. The government is a highly competitive organization from the railways' point of view just the same as anybody else. They are just another customer to the two railways, unless you find here and there the view which does prevail in some departments that the business of the department should as a matter of policy be equally divided by percentage between the railways. You find that in some departments.

I think Mr. Fraser should be very explicit in his remarks; and if he has this impression, and it is well founded, he should give the committee whatever value there is in it.

The CHAIRMAN: Mr. Jackman, may I suggest that at the present time the committee is examining Colonel Ralston. I do not know whether we are through with him or not. We have called in one or two incidental wit-

nesses at the request of the members. Now, do you wish to call Mr. Fraser? If we are through with Colonel Ralston we will be very glad to have him take the stand. But, let us get on in as orderly a way as we can and get through. Now then, are you through with Colonel Ralston; may I ask the committee?

Mr. POULIOT: I have just one question or two.

The CHAIRMAN: All right.

Mr. POULIOT: Colonel Ralston, do you consider the railway firemen, or brakemen, or employee as being engaged on a war job?

Hon. Mr. RALSTON: What is that?

Mr. POULIOT: Do you consider railway work in the nature of firemen, brakemen, and men of that kind, as being engaged on war work?

Hon. Mr. RALSTON: Anything that has to do with the carrying on of the war is war work. I do not consider it is in the same class as a man working in the services.

Mr. POULIOT: No; but do you not think it is important that men who carry on that work should be healthy?

Hon. Mr. RALSTON: What?

Mr. POULIOT: Healthy.

Hon. Mr. RALSTON: Healthy?

Mr. POULIOT: Yes.

Hon. Mr. RALSTON: I would say so.

Mr. POULIOT: And is it the policy of your department to call to the colours men who are brakemen and firemen and who have done part of their training?

The CHAIRMAN: I think those questions are outside of the matter which is now before this committee.

Mr. POULIOT: Well, Mr. Chairman, the witness was called but he did not have a subpoena duces tecum, meaning he was not called for a specific purpose. As he is the witness now I have asked him something pertaining to his department and the C.N.R.

The CHAIRMAN: What we are discussing really now—

Mr. POULIOT: I am discussing—

The CHAIRMAN: What we are discussing now is the proportion of government business that is allotted to the railways.

Mr. POULIOT: I am discussing the interference by the Department of National Defence with the proper management of the railways.

The CHAIRMAN: If the hon. minister does not object to your question, all right, so long as we can get through with it; but you are following the wrong track now.

Mr. POULIOT: If you will allow me to put one more question—I do not wish to do anything that is not in accordance with the wishes of the chair—but I would ask the witness: don't you think it is a handicap for the railways to have called back to complete their training men who have experience as firemen and brakemen?

Hon. Mr. RALSTON: That just depends on how many men we have employable for that work and what facilities we have for training them. There is provision in the National Resources Mobilization Act for completing or postponing the training of key men if they are shown to be essentially key men. That is not done by the Department of National Defence but by the Department of National War Services.

Mr. POULIOT: I understand that such jobs cannot be filled by the patients of the Lady Grey Hospital or the Lake Edward Sanatorium—they cannot become

brakemen or firemen—and you cannot expect men who are unfit for military service to be brakemen and firemen on a train, can you?

Hon. Mr. RALSTON: I would have to leave that with the railways; it is a railway question.

Mr. SHAW: Mr. Chairman, I am not sure that the matter I wish to bring up is being brought up at the proper time; but this matter relates to the movement of Japanese, and I am given to understand that some of these Japanese are working on the railway in some places, working at improving certain sections of the railway and in other cases they are being housed in railway cars. Now, that is only a report, and it may not be true. I should like to know just what part of the business the C.N.R. secured with respect to the movement of the Japanese, and I should like to have a statement with regard to the other matters I brought in.

Mr. VAUGHAN: We are not employing Japanese. We have been asked by the Department of Labour to house a number of Japanese in boarding cars pending the completion of facilities for them while they are doing road construction work adjacent to our lines.

Mr. SHAW: I should like to say that I was not looking at the matter from a standpoint of hiring; but are they engaged anywhere, for instance at Jasper?

Mr. VAUGHAN: No, sir.

Mr. MAYBANK: I think it is perfectly clear that we must ask Mr. Fraser for information, and we cannot get very far in the few minutes that remain before 1 o'clock, and this seems to be the appropriate time to adjourn.

The CHAIRMAN: Is the committee finished with Colonel Ralston, or do you wish to have him back again this afternoon?

Mr. MAYBANK: As far as I am concerned there is only the possibility that something might be said and it might be better if he were here, but I would not suggest that the minister be here unless his duties permit.

The CHAIRMAN: Very well, we will adjourn until 4 o'clock.

The Committee adjourned to meet at 4 o'clock p.m.

AFTERNOON SESSION

The committee resumed at 4 o'clock.

The CHAIRMAN: Order. Gentlemen, we brought Mr. Symington here to-day at a good deal of inconvenience to himself. It is very desirable that he get away to-day if at all possible. If it is the wish of any member of this committee to interrogate Mr. Symington we will have him called now so as not to detain him.

Mr. NICHOLSON: Mr. Maybank wished to ask him some questions.

The CHAIRMAN: I had a word with Mr. Maybank and he said he was not so particular about placing Mr. Symington on the stand.

Mr. McCULLOCH: Call Mr. Symington now.

Mr. H. J. SYMINGTON, recalled:

The CHAIRMAN: Had you a statement of any kind to make?

Mr. SYMINGTON: No. I met Mr. Maybank in the hall after adjournment, and I thought I was through. I had made some Washington appointments, and had a talk with Mr. Maybank. He said, "Well, that satisfies me, but somebody else may want to ask you some questions."

By Mr. Jackman:

Q. Perhaps I might address one or two questions to Mr. Symington. I gathered from the evidence we took the other day that 80 per cent of the business which the T.C.A. did arose directly or indirectly out of war business.—

A. Yes.

Q. How do you expect that the line will be able to carry on in the post-war period—I think that was touched on very, very briefly—when 80 per cent of what you might call the normal channels of business is disappearing; that is the war channels. How do you expect to be able to pick up anything like sufficient business to maintain the organization which you are building up? A. Well, of course, we are living in the age of prophecy; but my own judgment is that with the demonstration of the advantages of air travel, the education of the people to air travel, and with the fact that prior to this very heavy war load we were continually increasing and that to-day we are having to refuse, much to our regret, a great deal of civil business, we are not worrying about that. We may be wrong, but that is our view. The load was going even before the war acceleration, and in the early days of the war, when the percentage was not nearly so large, the business was growing very greatly. It was a matter of education. Now we started traffic organization that went out to educate the people to get traffic. The traffic organization to-day is purely a servicing organization, trying to explain to people why we have to put them off planes and ask them to wait to see if we can get another one two or three days later, all that sort of thing. I think the natural growth of the new art in Canada, a country of great distances, will result in all we can do, and the planes, remember, will be very much improved after this war and indeed will be very much cheaper because of the tremendous capacity both of aluminum and of the works that make the planes.

Q. Where do you find your heaviest density of traffic; is it between Toronto and Ottawa, and Montreal and Ottawa?—A. Well, as far as loading is concerned our density of loading is on the transcontinental lines themselves, but, of course, there are some short lines that run, for instances, from Montreal to Ottawa. People, generally speaking, I think, will come by train, unless it is a matter of getting there in a hurry and getting back. When you take the Windsor to Toronto to Ottawa route, these planes are very popular; these trips are very popular, and there is great difficulty in getting seats in the planes for a long time ahead. Now we are opening up the Newfoundland service. We have 85 reservations already on the Newfoundland service. We have people reserving months ahead. The American army suggests they could perhaps use six seats in these planes. We are worrying what we are going to do about that, quite true. That is more particularly war traffic.

Q. You would not expect any call for traffic between Newfoundland and Canada for a regular service?—A. Yes, I would, sir, because—let me give an example. We have made tests on mail, and what takes us perhaps eleven hours by air has been taking eleven days. Take concerns like the Dominion Iron and Steel. They are thanking goodness—and they are a large concern—now they can fly to Newfoundland and back. The International Pulp and Paper concern want us to stop at Stephenville because they have six miles only to get from there to their international mills. All these people are firmly convinced that the route, apart from its ocean-going aspect, will support itself. That is their view. True, in the agreement we can stop any time we like after some months' notice, but certainly there is one place where time beyond belief is saved by air because of the peculiar characteristics of the other methods of travel.

Q. You intend your traffic organization to be more than a service organization. What arrangements have you for selling tickets or for servicing passengers in the various cities? You make some arrangement with the C.N.R. ticket offices and you have your own offices established elsewhere—A. In the bigger cities we

have our own offices as well. If a man telephones in for a reservation the General Reservation Officer is immediately communicated with. We make inquiries about their passports to see if they are right because they get in trouble if they are going to the States, if they are not right. We tell them the position of the plane, whether they have got a seat or a reservation on one, two, or three. We explain the "must ride" situation to them, and then we keep telephoning to them two or three times a day to make sure they want to go, to see if they have changed their mind or if they are still on the list, or by switching we can do something else to-morrow, and all that sort of thing.

Q. Several times I have had people suggest to me that some of these offices are rather elaborate and perhaps costly to the T.C.A. I think you have one in Windsor and a new one recently opened in Montreal and one at Fifth avenue in New York. In Toronto, for instance, I think you just use the counter of the C.N.R. ticket office there to service—A. Quite right.

Q. Have you any breakdown of the expenses in connection with the office administration; that is, of the ticket office administration?—A. I think I can give you that; but let me tell you that it is really, compared to the other lines, remarkably low. You talk about New York. We had an office in the railway there. We pay them certain rental, it is quite true; but the only rental we could have got very much cheaper would be in less advantageous premises. In Montreal we have no new offices. It was proposed to move from the office we are in there to the Dominion Building and I turned it down. I said no, not under these circumstances. Our offices at Montreal are too small and too crowded because the passengers have to collect there; their baggage has to be attended to, and they have to take a bus from these places. I would say, having considered the subject, that our traffic arrangements are nothing like what they will be when we are out for traffic.

Q. Have you a breakdown of the ticket offices cost?—A. I would just have to look at that.

Q. Perhaps I might ask you another question while you are looking for that. Would it be your opinion that no airway company could exist without a contract to carry mail for the government?—A. I would say without any doubt. I do not think there is any doubt about that, in Canada, particularly, a country of small population. As you see now with our large loading percentage, 52 per cent of our revenue comes from mail, 48 per cent amounts from other services. But the other services have been growing each year. As it grows down go the mail rates, but always remember the mail has priority and if there is too much mail we have got to keep a seat vacant because of the weight of the ship.

Q. I suppose that from the standpoint of the T.C.A. alone, in looking at it as part of the national system or as part of the government you would prefer to have a firm contract and not one that simply reduces the air mail rates because the line as a whole happened to be doing better. Have you any suggestion to make as to what principles you would prefer to see incorporated in the contract between the T.C.A. and the Post Office Department which would give this committee, if you like, a fairer picture of the progress in years to come of the T.C.A.?—A. Well, you are getting down to the question of principle there, Mr. Jackman. The original contract was very wisely considered purely in the light of a national undertaking. The Canadian National Railways can never make any more money out of it than the interest of the money they have in it. From the standpoint of the railway that might not be satisfactory; from the national standpoint I think it is most desirable. I have no suggestions of change at the moment. I look upon this as a national undertaking, that is the reason why I am at the moment not making any suggestions to you. Experience might require some change in the future if the mail becomes too heavy so that we cannot carry passengers why naturally we will have to put on extra planes. You can see that when we are only getting 52 per cent of our revenue from the

mails we could not possibly do without creating a deficit which you would have to make up in that case. So long as we can keep passenger and other services growing with the mail it is ideal; but if the mail becomes proportionately heavier, with the earning capacity compared to expenses bringing deficits which we do not like as operators, because you have a deficit—we would sooner have it the other way, a surplus rather than a deficit, naturally.

Q. How many of the ticket officers are joined with the C.N.R. and how many are independent? Have you those figures here?—A. All, I think, are joined with the C.N.R. except in the larger cities. We have one in the C.N.R. hotel at Halifax; we have one at the hotel here in Ottawa, we have one in Montreal; we have one in the Royal York in Toronto and we have one in the hotel at Vancouver.

Q. You have not got the expenses there to file?—A. I was not ready for it. I have a breakdown here, but I do not know whether it would give you exactly what you want: rent of traffic offices, for instance, \$19,325; travelling expenses, expense of traffic, \$53,342; agency commissions \$21,000; other traffic expenses \$11,665. I wonder if that is all inclusive, but that is the way it is broken down in this statement which I have in front of me.

Q. If some railway or some other air line booked passengers over your line do they get a commission also?—A. A commission of $2\frac{1}{2}$ per cent.

Q. In the operating expenses again you have operation and maintenance \$3,011,315. Would you tell me how much of that went to maintenance?—A. How much is maintenance? I was asked to put in the record, Mr. Jackman, statements, and I have done so, which give you, I think, the whole breakdown of the whole thing.

Q. Can you tell me without too much trouble just what the total of the maintenance and depreciation accounts are or what percentage they equal of your operating expenses or will they be found in the record.—A. Yes. It is very long. At page 5 you will find (1) aircraft operation, maintenance and depreciation; (2) groundwork, operation, maintenance and depreciation; incidental services, operating expenses, traffic and general administration and general taxes.

Q. You are filing that?—A. It has been filed, yes.

The CHAIRMAN: Do I understand that you wish to ask Mr. Symington some questions, Mr. Maybank?

Mr. MAYBANK: Mr. Chairman, I was the one who asked that Mr. Symington be brought back here. Since he has come here, I have had some conversation with him which I understand he has already spoken about here to-day; and so far as I am personally concerned, my difficulties are resolved.

The CHAIRMAN: Is there any other discussion? Does anyone else wish to interrogate Mr. Symington?

Mr. MAYBANK: I think, furthermore, that if Mr. Symington had not been anxious to be a witness, I could have got it at least a little sooner, or checked that before he got here. I think he has been a lawyer so long that he wanted to be a witness.

The CHAIRMAN: I guess that is all, thank you, Mr. Symington.

Gentlemen, we had just about reached the Post Office Department in the process of hearing the heads of departments this morning. Mr. Mulock is with us now and I presume it is the wish of the committee that we hear him without any further delay.

Hon. Mr. MULOCK: Mr. Chairman, first of all I should like to state that there is no 50-50 basis so far as the post office is concerned with regard to the division of work or business between the railways. As far as the department is concerned, it has got to utilize the services of the company which is best able

to give service to the public. I might as well start in and give you the percentages. I have some figures here which should show you that over a period of years the Canadian National Railways is gradually lessening the difference between what they have been receiving and the C.P.R. In 1941 the Canadian National Railways business with regard to the Post Office Department amounted to \$3,194,375, representing only 46·91 per cent; the Canadian Pacific received \$3,615,577, 53·09 per cent. I might say that during the years 1931 to 1934, when we had the depression, the Canadian National Railways cut their services to a point where they gave up mail traffic amounting to about \$600,000 a year. During the same period the Canadian Pacific lost mail traffic amounting to about \$342,000. I will give you the differences, if you would like to have them, since 1935. The Canadian Pacific received \$652,000 more in 1934-35; in 1935-36 they received \$668,000 more; in 1936-37, \$655,000 more than the C.N.; in 1937-38, \$620,500 more; in 1938-39 \$581,000 more; in 1939-40, \$558,000 more; in 1940-41, \$545,000 more; in 1941-42, \$430,000 more. So that you can see that it is gradually coming down. I might say that in the last year the Canadian National Railways received—that is, 1941-42—\$202,418 more business than the year before. The C.P.R. received \$87,811 more. Thus the Canadian National Railways are gradually getting a bigger percentage of the business. The difference here in this year and last year, a gain to the C.N.R., is over \$114,000 as compared with the C.P.R. One of the chief reasons for this is due to the fact that there are two trans-continental trains run by the C.P.R. and one by the Canadian National Railways. We are working out and have been working out certain problems with the Canadian National Railways and their officials and I think on the whole they think they are making progress. I do not know whether Mr. Fraser or the President of the C.N.R. will agree with me, but he will admit, I think, that they are getting more business.

The CHAIRMAN: Both roads participate in main line business?

Hon. Mr. MULOCK: Oh, yes. One of the large paying propositions is the railway postal car—railway post offices or R.P.O. On account of the equipment shortage at the present time, I do not think the C.N.R. are in a position to provide more of that service. Then the question comes down more or less to a great extent to the question of the overflow mail. That is a question which is being dealt with and has been dealt with, and, as a matter of fact, I think the officials of the C.N.R. are in touch with officials of the post office department at the present time. That is the general picture here. If there are any questions that I can answer, I should be only too glad to do so.

The CHAIRMAN: You have nothing else to offer but mail?

Hon. Mr. MULOCK: No.

Mr. NICHOLSON: Mr. Chairman, my understanding is that, according to the report we had last year, the C.N. mileage was 21,790 as compared with the C.P. mileage of 16,829; the C.N. employees numbered 75,000 as compared with C.P. employees of 53,000. The officials gave us figures last year in connection with difficulties in introducing the post office cars. I see we have the president of the C.N. here. Is it right that the C.N. would have difficulty in supplying those railway post office cars on the main line?

Mr. VAUGHAN: We have no surplus of railway post office cars at the present time. I think Mr. Fraser could probably speak better about the overflow mail.

The CHAIRMAN: All right, Mr. Fraser.

Mr. FRASER: Mr. Chairman, we have certain things we are taking up with the Post Office Department now with respect to overflow mail. We are making six suggestions to them. I am hopeful that they will adopt them all. I can read them into the record if any useful purpose would be served, but I do not anticipate difficulty with the Post Office Department with respect to this.

The CHAIRMAN: Perhaps I had better ascertain from the committee if they are through with Mr. Mulock.

Mr. FRASER: I am sorry. I thought they were through.

Mr. JACKMAN: Mr. Chairman, do you intend to allow us to ask questions in regard to the air mail contracts and other relevant matters now or should we defer that until later?

The CHAIRMAN: I think you had better go ahead now.

Hon. Mr. MULOCK: I should like to get the officials over here beside me.

The CHAIRMAN: Now we are interrogating the Post Office Department, we might as well go ahead.

Hon. Mr. MULOCK: Yes.

The CHAIRMAN: All right, Mr. Jackman.

Mr. JACKMAN: I wonder if the Post Office Department would tell the committee how much it has spent on advertising for the purpose of developing air mail, particularly sending out the handsome little letters with four or five colours on them advocating the use of air mail.

Hon. Mr. MULOCK: I think I have my estimates here. I cannot tell you whether I have that exact breakdown for that particular item. I did not know we were going into air mail, but I guess I can find them. The total amount for all advertising under the air line mail service was \$30,000.

Mr. JACKMAN: For last year?

Hon. Mr. MULOCK: Yes, for the last year. For the next year it is \$20,000. I would like to make it clear. I do not want you to get the idea that all of that \$30,000 was expended for those folders that you were referring to. I should like to have that corrected right now.

Mr. JACKMAN: That was the amount that the Post Office Department spent for advertising its air mail service.

Hon. Mr. MULOCK: Yes.

Mr. JACKMAN: I do not suppose the Post Office Department has any way of telling what proportion of air mail is connected with war business and how much just ordinary personal correspondence?

Hon. Mr. MULOCK: I cannot break it down, no.

Mr. JACKMAN: Could you give any figures as to whether or not air mail was profitable to the Post Office Department last year?

Hon. Mr. MULOCK: I will give it to you from July last, month by month, if that would be satisfactory.

Mr. JACKMAN: That would be for about a ten months' period, would it?

Hon. Mr. MULOCK: From August until the end of March. In July, 1941, 129,705 pounds carried at a cost of \$263,040. The estimated revenue to the department was \$259,410 or a deficit for that month of \$3,630. In August we carried, 131,111 at a cost of \$250,617; an estimated revenue of \$262,222; or \$256,878 or a deficit of \$1,763 for the month of August. September, pounds carried, 131,111; at a cost of \$250,617; an estimated revenue of \$262,222; or surplus of \$11,605. October, 133,092 pounds carried at a cost of \$253,068; an estimated revenue of \$266,184; or a surplus of \$13,116. November, 125,448 pounds carried at a cost of \$236,766; an estimated revenue \$250,896; a surplus of \$14,130. December, 150,042 pounds carried at a cost of \$237,202; an estimated revenue of \$300,084, a surplus of \$62,882. January, 1942, pounds carried 127,882 at a cost of \$249,085; an estimated revenue of \$255,764, a surplus of \$6,679. February, 120,786 pounds carried at a cost of \$226,058; an estimated revenue of \$241,572, or a surplus of \$15,514. March, 135,524 pounds carried at a cost of \$253,682; an estimated revenue of \$271,048, a surplus of \$17,366.

Now, I have just given you these figures month by month, Mr. Jackman, to give you some idea. In 1938 the deficit was \$347,789 to the post office. In 1939 it was \$500,207. In 1940 it was \$978,289 of a deficit. In 1941 that had been reduced to \$224,983. And if this business continues, I think, as you can see, we should be operating on a purely profitable basis from now on; providing we can continue to get the increase in volume in air mail.

Mr. JACKMAN: Is this only your T.C.A. business or all of it?

Hon. Mr. MULOCK: It is only the T.C.A. business.

Mr. JACKMAN: How do you divide the 6 cents postage rate between air services and the land services?

Hon. Mr. MULOCK: Four and two.

Mr. JACKMAN: Four cents for the air?

Mr. MULOCK: And two cents for the land.

Mr. NICHOLSON: I wish I could have some information—this is T.C.A. business only?

Hon. Mr. MULOCK: T.C.A. entirely.

Mr. NICHOLSON: How about air mail on feeder lines; are they included?

Hon. Mr. MULOCK: These are only the lines under the Canadian National.

Mr. NICHOLSON: I know, these are the T.C.A. figures; could you give us the other?

Hon. Mr. MULOCK: This is Trans-Canada Air Lines only, our business with the Trans-Canada.

Mr. DONNELLY: Do you make provision for mail service like the one between Regina and Moose Jaw?

Hon. Mr. MULOCK: Yes.

Mr. DONNELLY: And you sign a contract with Prairie Airways, for example, to carry the mail?

Hon. Mr. MULOCK: But they are not operated in this. That has nothing to do with these figures.

Mr. DONNELLY: I know, but I say, do you do that?

Hon. Mr. MULOCK: Yes.

Mr. HAZEN: What rates are paid to private air lines for carrying mail?

Hon. Mr. MULOCK: They all vary. There is a long list of them.

The CHAIRMAN: That is a post office matter, one which should be dealt with on supply in the house.

Mr. HAZEN: The only thing I had in mind was that we were informed here by Mr. Howe, I think, that his department was paying the post office; or, the post office paid his department, 45 cents a mile for carrying their mail.

Hon. Mr. MULOCK: For the T.C.A.

Mr. HAZEN: I thought I might ask the minister what his department paid private lines for carrying the mail.

Mr. MAYBANK: That would take in a whole lot of country.

Hon. Mr. MULOCK: You see, the rates are settled between the Minister of Munitions and Supply and the Postmaster General on the basis of last year's operations.

Mr. HAZEN: Yes.

Hon. Mr. MULOCK: In the case of these, of these individual companies, it is a matter of negotiation. Their rates in many cases are considerably less.

Mr. JACKMAN: Does the Minister of Munitions and Supply officially sit in on the agreement between the post office and the T.C.A.?

Hon. Mr. MULOCK: That is settled by statute, and recommendation is made jointly by the two ministers as to the rate based on the results of the operations of Trans-Canada Air Lines for the year before.

Mr. JACKMAN: I do not just see why you mention the Minister of Munitions and Supply.

The CHAIRMAN: Under his present portfolio he retains his capacity as minister for the T.C.A.; he looks after the T.C.A. as well as his own department.

Mr. JACKMAN: And it is still left with him?

The CHAIRMAN: Yes, sure.

Mr. JACKMAN: I thought he had transferred that to Mr. Cardin.

Hon. Mr. MULOCK: No, it has always been Mr. Howe.

Mr. HAZEN: If I am out of order I can ask it later on the post office estimates. What I would like to know is the rate paid to private lines; how many private lines there are, and the rates paid to them by the Post Office Department.

Hon. Mr. MULOCK: Yes, they are paid by the Post Office Department where there are air mail contracts; but I do not imagine very many of them are being operated.

Mr. HAZEN: Are you prepared to say what the amounts paid to private lines are?

The CHAIRMAN: Is it not an established fact? I think we ought to make more headway. This is purely problematical hypothesis, and I believe we are here as far as possible to deal with facts.

Mr. NICHOLSON: The facts are that the C.N., according to the latest information, did 46 per cent of the business last year and the C.P.R. did 53 per cent of it.

Hon. Mr. MULOCK: That is right. The year before that they had 45.63 per cent and the C.P. had 54.37.

Mr. NICHOLSON: Yes. In view of the suggestion made in this committee last year that the department and the government should distribute the business on a 65 per cent basis—I think we had the suggestion made that 65 per cent of it should go to the C.N.—and they are only getting 46 per cent, they are not getting as large a share as they should have.

Hon. Mr. MULOCK: Well, it is beginning. One of the difficulties is the two-a-day transcontinental service which the C.P.R. has; and a very large percentage of their revenue comes out of the Montreal-Toronto-Winnipeg runs. Also there is the R.P.O. I will give you the figures, if you would like to have them, on the question of the Railway Post Office. That is one of the profitable ends of the mail business so far as the railways are concerned, the R.P.O.

Mr. NICHOLSON: Is not the C.N. able to take advantage of that? Are they not getting new equipment? When are they going to get it?

Hon. Mr. MULOCK: I don't suppose they know just at the moment.

Mr. VAUGHAN: It is impossible at the present time to get passenger equipment. But, as Mr. Fraser intimated, negotiations are being conducted actively with the Post Office Department which we think will give us a substantial increase in mail. I think Mr. Fraser is quite satisfied that the situation is progressing quite all right from our standpoint. Is that right, Mr. Fraser?

Mr. FRASER: Yes.

Mr. SHAW: I do not know whether I am right or not in concluding that the minister said that they are getting all the mail to transport at the present time that they have equipment to handle, or facilities for handling.

Hon. Mr. MULOCK: No, I did not. There are two ways. There is the R.P.O., and there is the overflow, the regular baggage-car mail which is on a regular basis. In all probability something can be done on a baggage-car basis, but the Canadian National at the present time are not able to provide more railway post office cars and naturally they cannot get much more of the business there.

Mr. SHAW: Yes. If they were able to would there be an automatic guaranty of further business; would you conclude that that would be the case?

Hon. Mr. MULOCK: You mean, if they had R.P.O. cars?

Mr. SHAW: Yes, or baggage.

Hon. Mr. MULOCK: You cannot give automatic guarantees. These things are a matter of business; and in each case where they are worked out, one of the difficulties that they have to contend with over a period of years is the fact that the C.P.R. went through the southern part of the province back in 1904. With the northern lines, naturally the population follows the railway, and the large centers built up along that railway; whereas the development of the last line through the northern part of the province was not so great and they had not acquired the same volume of population there. Over a period of years I do not think there is any question about it but that the Canadian National in the ordinary course of events will get considerably more business from the Post Office Department as the communities along their line enlarge, considerably more than the Canadian Pacific will.

Mr. SHAW: Of course, I appreciate the fact that eventually the business will increase, but my point really was would there be more business at the present time providing we had the facilities for handling that business?

Hon. Mr. MULOCK: There would be so far as the R.P.O. is concerned, yes. You take last year now, they were closer by \$114,000 between the two railways; the C.N. was \$114,000 better off in business than they were the year before.

Mr. EMMERSON: So far this discussion has all dealt with the business between Montreal and the west; what about the east, and mail originating in Halifax or Prince Edward Island, or we will say Moncton; how is that routed, is that carried C.N.R.?

Hon. Mr. MULOCK: Where?

Mr. EMMERSON: I said from the east to Montreal. How is it that some of the mail coming from Moncton would go to Saint John and be transferred from there to Montreal and Ottawa?

Hon. Mr. MULOCK: I will ask Mr. MacNabb, that is his special job.

Mr. MACNABB: That might depend upon the time of the year; or, it might be a case where a train had just pulled out and there was another train leaving which was going by way of Saint John which would get that mail into Montreal and Ottawa much quicker were it held over for the next C.N. train over their main line. However, mails originating in the Maritimes are carried very largely over the Canadian National; and where their lines serve the district in the Maritime Provinces and to that eastern district it is by far the largest.

Mr. EMMERSON: But by the time it arrives, only an hour's difference, the newspapers would be ordinarily routed from Moncton to Saint John and transferred because the trains do not go there.

Mr. MACNABB: The morning papers from Moncton for Montreal are going by Saint John.

Mr. EMMERSON: The daily papers?

Mr. MACNABB: We give priority to daily papers as far as we can and give the same treatment as to letter mail.

Mr. HANSON: I would like to ask the minister a question. With regard to mail starting at Moncton, New Brunswick, and addressed to Prince Rupert, British Columbia, is it not a fact that it goes half-way across the country on the C.P.R. before it is handed over to the C.N.R.?

Mr. MACNABB: It would be handled over the Canadian National to Montreal, from Montreal to Winnipeg by C.P.R., and from Winnipeg to destination by Canadian National.

Mr. HANSON: For the same route from Moncton to Vancouver, is that handled the same way too?

Mr. MACNABB: We would route it that way because we would want to utilize the postal car service authorized on the Canadian Pacific.

Mr. HANSON: Between Montreal and Winnipeg?

Mr. MACNABB: Yes.

Mr. HANSON: Between Moncton and Vancouver it goes C.P.R. right through from Montreal to Vancouver.

Mr. MACNABB: Yes, the answer would be the same for Vancouver, only it would go from Moncton on the Canadian National, and then from Montreal to Vancouver by Canadian Pacific Railway.

Mr. NICHOLSON: I understand there are three trains operating east from Winnipeg each day. Are there railway post office cars on each of those three trains?

Mr. MACNABB: Yes.

Mr. NICHOLSON: And are there not any on the C.N.R.?

Mr. MACNABB: There are postal cars on two Canadian Pacific trains, 1-2 and 3-4, and on the Canadian National 1-2 Capreol to Winnipeg.

Mr. NICHOLSON: Not out of Winnipeg?

Mr. MACNABB: Yes, from Capreol to Winnipeg.

Mr. JACKMAN: Is the contract between the post office and the railways easy to explain or is it a complicated affair?

Mr. MACNABB: The rates are kind of complicated. The agreement is covered by order in council. The rates are, of course, complicated.

Mr. JACKMAN: Is it possible for the post office to break down the cost of delivering a letter within a city at the 2-cent rate as against the 3-cent postal rate to another city? Can you divide your costs that accurately?

Mr. COOLICAN: The Post Office Department is really supported by the handling of first-class mail. On a 3-cent rate there would be approximately one-third profit.

Mr. JACKMAN: A cent profit on the 3-cent rate?

Mr. COOLICAN: Yes.

Mr. HANSON: I would like to ask the minister a question. Mail posted in Vancouver for Montreal cannot be posted on the C.N.R. train, and if you happen to miss a train you have to go over to the C.P.R. station and mail your letter; the C.N.R. doesn't take any mail for the east from Vancouver?

Mr. MACNABB: That is right. There is a closed bag service with the mails made up in the Vancouver post office and placed in charge of the baggage man. There are no clerks on the train to handle a letter posted at the C.N.R. station at Vancouver.

Mr. HANSON: That is how I understand it. It is inconvenient. You have to mail your letter to go to Halifax or Montreal, and if you go down to the C.N.R. station you cannot mail it either on the train or at the station, you have to go to the C.P.R. if you want it to go that day or within a reasonable time. It seems to me that that is an inconvenience in a large city like Vancouver when you are not able to have a mail service on the three transcontinental trains.

Mr. MACNABB: The operation is purely a question of economy.

The CHAIRMAN: We are not interrogating the Post Office Department on general business; we are trying to ascertain the relative division of mail between the two railways.

Mr. HANSON: That is what I am trying to explain, and I want to know why these things happen.

Mr. MACNABB: We use the Canadian National out of Vancouver, train 2, three days a week for connection with the Canadian National train out of Jasper for Prince Rupert. Mails are carried out of Vancouver on the days that will provide connection at Jasper with the train from Edmonton to Prince Rupert. The latter train operates three times a week and conveys a postal car from Edmonton to Prince Rupert. You must understand that train No. 2 operates on a fast schedule and stops at practically only divisional points. To provide for local service authorized on that train we are required to use accommodation trains between Jasper and Kamloops.

Mr. DONNELLY: May I ask the witness how mail travels from Canadian National points in western Canada to anyone here in Ottawa; is it all Canadian National or not?

Mr. MACNABB: It would depend.

Mr. DONNELLY: It is picked up on Canadian National points in western Canada.

Mr. MACNABB: Take the Canadian National trains coming into Winnipeg in the morning, most of them connect with the Canadian Pacific train, No. 2. That is a trans-Canada train with a postal car leaving Winnipeg in the morning. One of their trains carrying a postal car arrives in the afternoon and connects with Canadian National No. 2 with a postal car and Canadian Pacific No. 4. For instance, if the mail was for Toronto it would go on Canadian Pacific train No. 4, because in that train between Chapleau and Toronto we work the city mail, therefore there is a decided advantage and, of course, we have two 60-foot postal cars on the Canadian Pacific which are costly and we are utilizing them to the fullest extent.

Mr. DONNELLY: Now with regard to mail put in the mail box in Ottawa for some point in western Canada on the Canadian National Railways, how does that travel—by what railway?

Mr. MACNABB: It will depend on the time. If you post it here this evening it would leave here on Canadian Pacific train No. 7 going to Winnipeg; there it would connect with the Canadian National line operating out of Winnipeg in the morning. Supposing it was not intended for a train going out in the morning, it would connect with the Canadian National train carrying postal facilities in the afternoon—No. 3 or trains 5-9, going out at night.

Mr. HANSON: That means that the mail from Ottawa west travels C.P.R. as far as Winnipeg.

Mr. MACNABB: That is right.

The CHAIRMAN: Are there any further questions? I understood that the Department of Naval Affairs was to be represented here today by the Hon. Mr. Macdonald, and if the department is represented here we ought to hear from them.

Mr. JACKMAN: I think probably the minister is busy in the house with naval affairs this afternoon.

Mr. GRAY: I would suggest that before we go on with any of the reports that we hear from Mr. Fraser further in connection with traffic and in connection with the statements made here today.

The CHAIRMAN: Very good.

Mr. GRAY: Now that we have ascertained that for some time there has been an existing order that has been suspected by the railway officials and now as has been shown accepted with respect to the fifty-fifty division, I think Mr. Fraser should clarify to some extent his remarks of this morning with respect to how that affects his traffic department and anything else he might care to add.

Mr. JACKMAN: Before the question is put, I do think there is a certain amount of innuendo in that statement, you stated that the rule was in existence. I gathered from the evidence given by the various ministers—Mr. Ralston and Mr. Howe, and I think Mr. Cardin too—that there was no such rule.

Mr. GRAY: Mr. Ralston read it.

Mr. JACKMAN: The 50 per cent rule?

Mr. GRAY: Yes, he read it. It is there and I want to have it clarified.

Mr. SANDERSON: It exists since 1930.

The CHAIRMAN: Yes, it is on the record.

Mr. JACKMAN: I thought his officer said that no such directions had been given in regard to this.

Mr. GRAY: That is why I want this explained.

The CHAIRMAN: Mr. Fraser, would you make a statement, or do you want to be interrogated?

Mr. FRASER: Mr. Chairman, I have frequently said—I said this morning—that in our day to day business of soliciting traffic from government departments we have been frequently met with the statement that the officers to whom we were addressing our requests were unable to give us more than 50 per cent of the business of the particular department concerned because of instructions that were said to be in effect dating back to 1933. Those instructions are said to have emanated from sources very much higher than the quartermaster general to whom reference was made this morning—but I am informed by my own officers that those instructions generally are in effect in most, if not all, departments. Now, I think there can be no question about the fact, because they have been repeated as late as July 22, 1940—I am reading now from an order that was issued by an officer having proper authority—the order reads as follows:—

Division of traffic, R.C.A.F., which I take to be and is the Royal Canadian Air Force—Canadian National and Canadian Pacific railways.

1. All units and individuals responsible for the transportation of equipment by rail are to ensure that the policy of the Dominion Government in regard to the allocation of freight to the Canadian National and Canadian Pacific railways is adhered to. As far as possible, traffic is to be divided equally between the two operating companies.

2. Strict economy in shipments is at all times to be practised. In case of urgency, however, when speed is the overriding consideration, the company having this advantage is to be given the traffic.

I think if the committee—

Mr. MAYBANK: Just a moment, please. Is that the conclusion of the quotation?

Mr. FRASER: Yes, sir.

Mr. MAYBANK: You did not include the signature.

Mr. FRASER: No, sir, I have not got it. It was an officer of the R.C.A.F.

Mr. MAYBANK: You do not know, however, whose signature that is?

Mr. FRASER: I do not know, but I perhaps will be able to give you one with the name of the signer.

Mr. MAYBANK: All right.

Mr. FRASER: I am informed that on the 2nd of July —no, on the 15th of July, 1941, an order was issued signed by Air Commodore Thackaberry, the number of the order being G.H.Q. 32/2. I have not got a copy of the order here, but I am informed by officers of my own department who have seen it that for all practical purposes the instructions are the same as in the order I read previously; that the business is to be divided equally between the two railways. You meet in other departments too, the same statement, and officers have made this statement to our Canadian National officers that they have been checked by the financial officers of various departments who have called their attention to the fact that the Canadian National is receiving more than 50 per cent of the business of the government and referring them to the fact that that was contrary to the well understood instructions.

Now my understanding from the ministers this morning, or the Minister of Transport, was that he was making recommendation that if such instructions existed they be removed, which is quite satisfactory so far as I am concerned. I should like you to understand the position of the traffic officers of the Canadian National Railways. I go to an officer who has the power to give or withhold business from the Canadian National Railways; and I undertake to urge upon him service reasons and any other reasons that seemed good to me why he should give more business to us than he was giving; and he meets me with the statement: "Unfortunately I cannot do that, because I am prevented from giving you more than 50 per cent of the business." Now I should like very much if it is possible to have those instructions, if they be instructions, or understanding if it be an understanding, or a theory if it be a theory, removed. It is a definite limitation upon my ability to get more than 50 per cent of the business in so far as the officer concerned feels bound by it and not infrequently he does feel bound by it.

In the case of the Department of National Defence, for example, these instructions no doubt came from a higher authority than the Quartermaster General. They were repeated by the Quartermaster General and I suggest to those of you who have been in the army that it is futile to tell a soldier in a camp by word of mouth that he must not carry that out. They are instructions that have never been changed; and I would urge if possible that they be changed. I am not asking somebody to give me 60 per cent or 70 per cent or 80 per cent or 90 per cent of the business. We have been limited. I have my own views about that; but I say it is very difficult to get what I think is a fair proportion of the business when faced with definitely understood instructions that we cannot get more than a named amount.

An undertaking of a minister in any department would not necessarily cure it. We have it in the Agricultural Department. We have it, I think, in all departments, and I am endeavouring as far as I can to make it clear what I meet and what my officers meet in the solicitation of business. We meet in some cases a stone wall.

I do not think I need suggest to you that it is not an answer to say that over a period of time, the Canadian National Railways receive more than 50 per cent of the business. It would be almost impossible, other things being reasonably equal, to prevent us from getting 60 per cent or more than 50, because we serve a much larger portion of the country than that, and if everything is left strictly alone our proportion at the present time is bound to be larger than 50 per cent of the whole.

Mr. SANDERSON: May I ask a question about the mileage in Canada of the two roads? What is the total mileage of the C.P.R. and the Canadian National Railways?

Mr. FRASER: It was recited, sir, in your own resolution last year when the mileage was given on the Canadian National Railways as 21,790 miles of road, and the Canadian Pacific 16,829 miles of road.

Mr. VAUGHAN: That is only the mileage in Canada.

Mr. FRASER: Correct.

Now unfortunately in addition to the difficulties already outlined, there is an additional result that is a very serious one. I myself have had this experience. I have gone to a large industry and have made what I thought was a convincing case for an increase in the proportion of the business of that industry—and on more than one occasion the head of the industry has said to me: “Why do you say I should give you more than 50 per cent of my business when the Canadian government who owns your railway only give you 50 per cent?” It is a very serious thing. I find myself somewhat baffled in finding an answer to it. That same theory is all over Washington to-day. You meet it in the States; and I do urge as strongly as I can that if possible it be removed by an authoritative statement that it does not represent the present-day policy—if the instructions represent the present-day policy I have nothing further to say; but if not it certainly is there and I think it should be removed because it is a limitation upon the Canadian National Railways and is a very definite and serious one, in my judgment.

Mr. JACKMAN: What do you say about the industrialists and shippers who say that this, the Canadian National Railways is our railway and we should ship exclusively or we should travel exclusively over the C.N.R.? I can remember my father always routed everything over the C.N. railway and in my judgment it always seemed rather unfair. Do you feel that you do not get the breaks very often by reason of the fact that many citizens feel the C.N.R. is their railway and never mind the private enterprise; we ship everything over the C.N.R. Do you think that your railway is discriminated against as against the C.P.R.?

Mr. FRASER: I say, Mr. Jackman, as against that there are other shippers who would not ship a pound of freight on the Canadian National Railways, because it is a government-owned institution, if they could help it. You meet all these cases. I am speaking of the specific cases, of a man who says to me, “Well, you have made a good case, but you evidently have not been able to convince your own owners of it who have it as their policy to ship equally by both railroads.” Perfectly true, but if traffic were shipped pound for pound on each railroad it would seem to be a very comfortable position for my competitor. It is a fact that does happen, Mr. Jackman.

Mr. JACKMAN: As I understand it, last year the basis proposed in estimating the representations by the railroad officials and the representations made by certain members of this committee for the division of traffic was what was included in the report as a rational basis, I believe, the mileage, the amount of funded debt, the service and the number of employees. The railway officials did not put any emphasis on that, but rather wished that any restrictions there may be in the way of a rule obtaining in government departments should be abolished so that they should be free to fight for the traffic if it is there, and that is all you are asking for at the present time.

Mr. FRASER: That is all I have said so far, Mr. Jackman, yes. But you see, sir, if you allow me, it is, I think, perfectly clear—and I say this because I do not think the Minister of Transport challenged it. It is perfectly clear that such instructions in some form or other are in existence. Now they are very old instructions, unfortunately. It is not as though I was asking on behalf of the Canadian National for something that we should not have. So far as we are concerned the limitation is upon us. If I were acting for a competing railway in Canada and could be assured from all my customers and 50 per cent of

the business of Canada, I would be a happy man indeed. That is definitely quite an aid to my competitor.

Mr. JACKMAN: It seems a much fairer basis than the one we were giving consideration to last year. I notice in the evidence of last year some expressions which to me might seem that you wanted a definite allocation of business from the government rather than the opportunity to fight for it. On page 121, for instance, you say: "If that be true of a commercial concern, and I am only giving you my own opinion, it seems to me that should be the minimum which the government, the owner of the property should give to us. I hold very strong views on that." The minimum you are referring to there is 66 per cent. Then there was more evidence to that effect on the following page, page 122 of last year's evidence.

Mr. FRASER: Mr. Jackman, I am not asking that an official division of business be made. If a division of business has to be made by the government I certainly say it should be not less than 65 per cent for the Canadian National Railways; and when presented last year with a question about my own opinion, I went considerably further and so said I feel we should have all the government business.

Mr. JACKMAN: To have the restriction removed so that you could go after the business is one thing; to have the division of the business definitely earmarked is quite another thing. I felt last year that the C.P.R. could never be in the position, no matter how short the end of the stick may be, to come before this committee and ask for an allocation of business. We would not entertain any consideration from them at all. If you put it on the basis simply of something working against the government railway then I believe some consideration should be given to the removal of this restriction.

Mr. FRASER: I would not want you for one moment, Mr. Jackman, to think that I have modified my own views at all as to what the Canadian National Railways are entitled to. All I am saying at the moment is that we find the restriction against us and I would like to have it removed. Now both railways are bound in the nature of things to be very busy. I personally hold the view that the important business of the Canadian people ought to be given to the Canadian National Railways as the Canadian people own the business. This morning some of the ministers gave evidence that so far as they could tell in their own department the division of business was 60 per cent for the Canadian National and 40 per cent for the Canadian Pacific Railway.

Mr. JACKMAN: It would appear from that, that some of these deputies of theirs who have the allocation directly of the business are not following this old rule that we have heard so much about.

Mr. FRASER: Not necessarily. That does not necessarily follow. You see, included in those proportions of business is all the business of the company, competitive and non-competitive. Speaking from memory—and you will correct me if I am wrong—I laid very strong emphasis last year on the fact that I was speaking of competitive business. It seems to me that there is no use, in finding out how each railway is treated, to put in the C.P.R. column a movement of traffic from Medicine Hat to Boharme, Saskatchewan. There is no other way it can move.

Mr. JACKMAN: We will agree with you.

Mr. FRASER: And there is no use in putting in the C.N.R. column a movement from Prince Rupert to Edmonton. But it is all in this gross. Therefore, in the nature of things, if the competitive business were equally divided between the two railways, and there was added to that the non-competitive business, the Canadian National proportion would be substantially larger.

Mr. JACKMAN: Have you been able to do any research work on the division of competitive business?

Mr. FRASER: It is impossible, because we have not got the other railway's figures. The only way you can get them is in a return presented to parliament or to this committee. We do not know what the other man gets. For example, if you would allow me, without disclosing military secrets, to give you some idea of what I mean, you have a very important port in the Dominion of Canada, one of tremendous importance in this war situation. The only railroad in Canada that can move a carload of freight intact to that port is the Canadian National Railways, either one through carload of freight or one through carload of passengers. There is only one railroad which can do it and yet the business to that port is divided between the two railways.

Mr. JACKMAN: May I ask another question?

Mr. FRASER: Yes.

Mr. JACKMAN: You say the business is divided between the two railways?

Mr. FRASER: Yes.

Mr. JACKMAN: And the C.P.R. have their cars or trains running over your line?

Mr. FRASER: In the case of freight, there is provision for that; and in the case of troops we accept the request of the movement control of the Department of National Defence, yes.

Mr. JACKMAN: You have to haul their trains on your lines, do you?

Mr. FRASER: Yes. Let me make it clear to you. This morning that very question came up and you heard from the movement control how the two railways are called into consultation and that business is divided. Perfectly true. You can readily understand that where there is a large movement of personnel at one time, it taxes the resources of the railways to get them all moved in the compressed time. We accept their requests for division, accept them very gracefully.

Mr. JACKMAN: As a military necessity?

Mr. FRASER: Yes. If you will allow me, I should like to say this. I have no quarrel whatever with that. That is a perfectly correct statement. But under this general instruction suppose you have a camp, and you have camps over Canada, in the air force particularly, with constant movements of personnel. Those are divided, ten to the Canadian Pacific, ten to the Canadian National, or five to the Canadian Pacific, five to the Canadian National under this general instruction. I will give you a case in point, if I am not boring you. I had a visit from two young men in Montreal last week. These were two English boys who had been at a training camp in Western Canada in the air force. The camp is served by both railroads. These two young men, my guests, held tickets from that camp to Moncton, New Brunswick, served only by the Canadian National Railways; the Canadian Pacific from the origin point to Saint John—Saint John to Moncton; on our line ninety miles. I asked him how that happened and he said, "Well, you see, from that camp these men are moved to Moncton alternately, one lot Canadian National, the next Canadian Pacific." But I discovered on the other hand that you will have men originating say at Moncton for that camp; you would naturally suspect that, as they originated on the C.N.R., they would move to Calgary or to Winnipeg on the C.N.R.; thence, if they had to go C.P., they would. But I find that both ways they interchange at Saint John. Out of the whole move both ways we get, frequently, a move of ninety miles out of perhaps 2000 miles.

Mr. McCULLOCH: When troops are moved who are going to Halifax, why are they moved to Halifax through Saint John?

Mr. FRASER: There are times when it requires all the equipment of both railways to get them moved at all. It does seem not too unreasonable that, if the military authorities call upon the Canadian Pacific Railway to supply equip-

ment in the national interest to handle troops to Halifax, they should not have to hand their equipment over to the Canadian National to move. I have no quarrel with that. There is a case where everybody in the national interests has to do the best he can. We then sit down with the movement control and they say, "Well, two trains will go one line, two trains another". They are piling in on top of one another, and that is a very difficult thing to do. That arrangement works out satisfactorily. But supposing two carloads of prisoners of war, we will say, land at Halifax going to Toronto. By the wildest stretch of the imagination I am unable to see why one of those cars should move from the point of entry which is served only by the Canadian National, taken around to Saint John and given to the Canadian Pacific Railway. It is a waste of transportation. It is a waste of power. In that particular case all they do is cross the station, but in many other points—Montreal, for instance, there is more to it.

Mr. MAYBANK: Has that happened?

Mr. FRASER: Yes, that has happened.

The CHAIRMAN: Regularly, or just very occasionally?

Mr. FRASER: It is hard to say, Doctor. The movements are intermittent. I am only citing that as a case in point. My point about that—and I do not want to make any other point about it—is that in good faith the officer who is responsible for that says to me,—and when I say "me" I mean my officer who happens to be there,—“I must do that because I am instructed to do it.” I read your circular from an officer. I am informed—and the committee can readily ascertain whether or not it is correct—that that language is in the standing book of rules of the Department of National Defence for Air in the hands of every interested officer in the field. I do not think it is fair to say to the Canadian National, “Whether you like it or not, that is all you are going to get.” My case at the moment is a simple one. I should like to have that limitation removed, and I do not believe it can be removed by verbal instructions from any particular head of a department, because certainly the instructions came at least from deputy ministers; and if it is in all departments, I suspect they came from the very highest authority.

The CHAIRMAN: May I ask, Mr. Fraser, if you are disposed to feel that the government of Canada should use its own railway for its own business? Is that your idea?

Mr. FRASER: That is an idea I hold very strongly, Doctor, yes.

The CHAIRMAN: All things being equal?

Mr. FRASER: Yes. If I do not stress it too hard, it is because I do not want to get into an argument with Mr. Jackman.

Mr. SANDERSON: I should like to ask Mr. Fraser for some more information. You told me that the mileage of the C.N.R. in Canada was 21,790 miles?

Mr. FRASER: Yes.

Mr. SANDERSON: And the C.P.R. was 16,829 miles in Canada?

Mr. FRASER: Yes.

Mr. SANDERSON: And the number of employees of the C.N.R. was 75,000. Are they all in Canada?

Mr. JACKMAN: There is more than that now.

Mr. FRASER: Yes, those are Canadian figures.

Mr. SANDERSON: And the C.P.R. have 53,000 employees?

Mr. FRASER: Yes, those are Canadian figures.

Mr. JACKMAN: They are last year's figures. You have had a big increase since then.

Mr. VAUGHAN: The figures would relatively be the same. They would have increased a little because we both have more employees now than we had in 1940.

Mr. JACKMAN: Mr. Fraser, I am thinking of these, what you might call discrepancies, if you like, or oddities, in the routing of the air force business and some other government business that you mentioned. Will the same thing arise over the C.P.R. lines? You mentioned your own lines. This is all *ex parte* evidence. We are not hearing at all from the opposition. It is a little unfair in a sense. I am just wondering whether or not, if we had your counterpart in the C.P. system here, if certain instances might not be cited which would be on all fours with what you say.

Mr. FRASER: Mr. Jackman, if I could use the name of a particular place which I think you know, and of which I am speaking, that is the outstanding case in point, because that is the place which we alone serve, and we are short-hauled constantly to a point beyond which only we can give the required service. I know of no such alternative case as you mention. I do not know of any.

Mr. JACKMAN: Of course you would not be as intimately concerned or as apprehensive of those cases. I am just wondering if there is not certain business that may originate on C.P.R. lines which ends up in a destination which is yours and theirs and part of the routing does not go over your line.

Mr. FRASER: I know of no such case except in the case of large movements such as I spoke of where it might well be. But in those cases of a carload or two carloads, I know of no such case. If there be some, I am afraid you would have to get them from somebody else. I would not know.

Mr. SANDERSON: Would you give me the mileage of the C.N.R. in the United States, if you have those figures?

Mr. FRASER: Yes.

Mr. DONNELLY: It is on page 29 of this book.

Mr. FRASER: The 1941 mileage in the United States is given at page 29 of the report. It is, first main track, 1,839.47 miles.

Mr. SANDERSON: Do you know the mileage of the C.P.R. in the United States?

Mr. FRASER: Yes.

Mr. NICHOLSON: Page 34 of the report.

Mr. FRASER: Approximately 325 miles.

Mr. MAYBANK: Are you able to say, Mr. Fraser, the extent to which business starts on the C.N.R. and is taken away and run on the other lines?

Mr. FRASER: I could not say that, Mr. Maybank.

Mr. MAYBANK: Is that kept track of?

Mr. FRASER: There is a record of it, yes. A record could be taken out, but it would be quite a job. Perhaps I might say this, that we would have to go and do it. We are all pretty busy. It is quite a job. You would have to get your passenger reports and check them off. So far as freight is concerned, you understand that there is always quite an interchange of it, as you all know, in all roads. To earmark those out would be quite a job.

Mr. MAYBANK: I should think that year by year, this organization ought to be able to state the business which starts with it but is taken away at times when it could have handled the business itself. I think that information ought to be readily available to a committee like this, year by year, because you apprehend this sort of thing will be the subject of scrutiny from time to time. Is it not possible to get that, usually?

Mr. FRASER: It could be done, yes. Of course, there is a tremendous interchange of commercial business. As you know, shippers route their business in

strange ways. So far as freight is concerned, almost any route is open—almost any one at all between any two points, on commercial business. And, even if the government, or whatever the authority is that put these limitations on, even if they take them away it might well be that some of the business might still move that way.

Mr. JACKMAN: Oh yes.

Mr. FRASER: My objection, of course, is in forcing it to move that way.

Mr. GRAY: I gather from what the witness says that he would be quite satisfied if all the restrictions were removed and the traffic allowed to move through its natural channels at all times?

Mr. FRASER: Yes.

Mr. JACKMAN: To get back to the point, I was asking Mr. Fraser about a minute ago; is it because of the geographical position of your line against that of the C.P.R. that there can be this unfair treatment, if you like; I am not familiar enough with the railway layout in Canada to understand it exactly.

Mr. FRASER: What I really have in mind is this: there is only one port in Eastern Canada served as I have outlined by only one railway; and that is the port which in wartime holds a tremendous importance for the movement of troops and the movement of wartime traffic; and that port is our port first of all. Now, business moves to that port let us say for a distance of 2,000 miles and we move it of that 2,000 miles only 280 miles.

Mr. JACKMAN: That is, whenever unfair treatment is resorted to; if you call it unfair.

Mr. FRASER: But it hurts us because of the fact that there is no comparable position on my competitor's railroad.

Mr. JACKMAN: So really this whole problem arises because of the eastern Canadian port; in the rest of the country the problem does not amount to very much.

Mr. FRASER: The whole problem arises by reason of the instruction that my competitor must get half of the business and I can't get my half.

Mr. JACKMAN: But the unfairness of that rule in application relates almost entirely to this one port?

Mr. FRASER: Not entirely, no; but that is the principal source, and there is no *quid pro quo*. There is nothing you could do the other way. There is nothing like it at all. Generally my statement gets down to this; that as I understand it these old instructions are in effect. I do not believe we should leave it—if I am not out of order in saying this—to the personal undertaking of anybody. These instructions I think should be rescinded by the body, whatever that body was, who issued them.

Mr. JACKMAN: Has the C.N.R. system sufficient rolling stock always to look after the requirements of this eastern Canadian port?

Mr. FRASER: Yes; but I would say this about that, Mr. Jackman; that the moment the government calls upon us to perform services that we cannot perform they are discharged from any obligation to us. There is another point; I would not ask them to take any unreasonable delays or other service disabilities. Business must move and the war must get on. I am assuming for my purposes that when I go and ask a man for business I have ascertained that I can handle it. If I cannot handle it there will be only one thing to do.

Mr. JACKMAN: I think you admitted a while ago that there were peaks at least when one company could not handle all the business.

Mr. FRASER: In which case I have already said we will co-operate to the fullest extent and let them move it any way they can.

Mr. JACKMAN: You can see how probably your competitor is not going to be very keen on moving traffic one way and finding that he has got to haul empty cars back. He will not want to be stuck that way.

Mr. FRASER: We are not going to worry about that, because we both have to do it. Take when troops are moving overseas, there is no back traffic, so there is a very large empty haul moving on both roads. There is no doubt about that; and on the way back we have to haul a very considerable distance in any event.

Mr. CHAIRMAN: Is there any further discussion?

Mr. MAYBANK: There is just this question in my mind: we have had nearly all the departments here; how we overlooked Air, I do not know. Judging by what was said here to-day instructions about restrictions did not apply to any department except Air.

The CHAIRMAN: You had the Minister for Air here this morning.

Mr. MAYBANK: No, the Minister of National Defence for Air is the Hon. Mr. Power.

The CHAIRMAN: Oh, I see, the Air branch of the army.

Mr. MAYBANK: Yes.

The CHAIRMAN: I was thinking about Trans-Canada; I am sorry. Mr. Power is out of town, but he did provide to have someone here representing him. I understand that Mr. Gordon was to have been here to-day to represent Mr. Power; the deputy minister was to have been here but in his unavoidable absence his assistant, Mr. Gordon, was assigned to appear.

Thank you, Mr. Fraser, very much.

Mr. DONNELLY: Mr. Chairman, before we go on with any other business do you remember when we were going over this annual report of the Canadian National Railways I asked that a couple of items stand; probably I can get answers to the questions I raised now. Is that all right?

The CHAIRMAN: Yes.

Mr. DONNELLY: I refer to the item respecting grain elevators on page 14 under operating revenues.

Mr. GRAY: Mr. Chairman, just a moment; are we not going to have a representative from Air?

The CHAIRMAN: If you ask for him.

Mr. GRAY: What strikes me is this; we have had a very frank statement made by the Minister of Transport, the Hon. Mr. Cardin, to-day; and by the Hon. Mr. Ralston, the Minister of National Defence, who read onto the record an order dating back to 1933, and as I understood it he certainly gave his own undertaking that he would see that that restriction was removed. The Hon. Mr. Howe made the point very clear in connection with it. And now we come along and find that Air apparently have the same instructions; and it was pointed out here among my colleagues that it is rather amusing that a new department such as Air would have put that order in its standing orders giving specific instructions in the matter. Here is that old order of 1933 finding its way into standing orders for Air. I think we might just as well finish it up and have someone here from the Department of National Defence for Air.

Mr. DONNELLY: Don't you think that at the same time we should have someone here from the navy?

The CHAIRMAN: Just a minute, gentlemen; I think I can straighten this thing out. The Department of National Defence for Air was requested to be on hand. It was not possible for the Hon. Mr. Power to be here, and it was not very easy for his deputy to be here, but I believe the deputy instructed

Mr. Gordon to attend. Why he is not present I do not know, as they have advised us stating that he had been instructed to be here. So I suppose we will still have Mr. Gordon. Now then, while we are talking along this line, the Hon. Mr. Macdonald came in to give us certain statements and figures and was anxious to get back to the house and said if we wished he would be glad to appear if we would send for him as soon as we were ready. I do not believe that we have time between now and 6 o'clock to hear him. I think if it is at all possible we ought to sit to-night. We cannot sit to-morrow morning; we have what Dr. Motherwell one time referred to as, "a seat with no place to put it". We cannot re-assemble before to-morrow afternoon. The question I would like to put to you is, shall we sit to-night?

Mr. HANSON: I move that we sit to-night at 8.30.

The CHAIRMAN: If that is agreed then, we will try to get Mr. Gordon to-night.

Mr. GRAY: Then, let's clear it all up.

The CHAIRMAN: I don't think we can make very much headway with the Hon. Mr. Macdonald between now and six o'clock. Perhaps we had better deal with these questions of Mr. Donnelly's in the meantime.

Mr. DONNELLY: As to this grain elevator, I noticed in 1941 you made a profit of around \$208,000; can you tell me how that came about. You will see that item there on page 14. There was just one grain elevator, which grain elevator was it?

Mr. WALTON: The item which appears on page 14 to which Dr. Donnelly refers are two elevators which the railway operates themselves; one at Tiffin, Ontario, and one at Portland.

Mr. DONNELLY: This one on page 15—grain elevators, that is maintenance of way, structures, etc.—are these the same two?

Mr. WALTON: That would be all owned elevators.

Mr. DONNELLY: You have an old elevator at Port Arthur, have you not?

Mr. WALTON: Yes.

Mr. DONNELLY: How did you get this elevator?

Mr. WALTON: You are speaking I think of elevator "B"; it was built in 1904 and enlarged in 1920. It was built by Lake Superior Terminals Co. Ltd. which was owned and controlled by the Canadian Northern Railway.

Mr. DONNELLY: What did it cost?

Mr. WALTON: The capital investment to date, as shown on our books, is \$2,849,065.

Mr. DONNELLY: Is it a large elevator?

Mr. WALTON: Its capacity is 7,500,000 bushels. It is a large elevator.

Mr. DONNELLY: Did you build and operate this elevator yourselves?

Mr. WALTON: Yes, by the Canadian Northern Railway.

Mr. DONNELLY: How many years?

Mr. WALTON: Only for a few months after completion in 1904.

Mr. DONNELLY: In 1904?

Mr. WALTON: 1904.

Mr. DONNELLY: Only for a few months?

Mr. WALTON: Yes.

Mr. DONNELLY: What has been your financial experience operating this elevator, are you making a profit or a loss out of it?

Mr. WALTON: The record is not obtainable. At the time it was built it was only used to a limited extent. You will appreciate that that was 38 years ago.

Mr. DONNELLY: And, you rented this elevator; from what time was it rented?

Mr. WALTON: It was first rented in September, September 1st, 1906.

Mr. DONNELLY: To whom?

Mr. WALTON: The British America Elevator Company.

Mr. DONNELLY: They have been so continuing ever since?

Mr. WALTON: No.

Mr. DONNELLY: How long did they operate it?

Mr. WALTON: Until 1922.

Mr. DONNELLY: Who did you rent it to then?

Mr. WALTON: To the Saskatchewan Co-operative Elevator Company.

Mr. DONNELLY: The Saskatchewan Co-operative?

Mr. WALTON: Yes.

Mr. DONNELLY: What rent were you getting from the first company, the British America.

Mr. WALTON: \$100,000 per annum for the years 1917 to 1922 inclusive.

Mr. DONNELLY: And what were you getting from the Saskatchewan elevator people?

Mr. WALTON: You mean, The Saskatchewan Co-operative?

Mr. DONNELLY: Yes, The Saskatchewan Co-operative.

Mr. WALTON: The Saskatchewan Co-operative had this elevator from 1923 to 1926 inclusive and the annual rental was \$151,508 per annum.

Mr. DONNELLY: Who rented it after the Saskatchewan Co-Op.?

Mr. WALTON: The Saskatchewan Pool.

Mr. DONNELLY: The Saskatchewan Pool.

Mr. WALTON: Yes; commencing September 1st, 1926.

Mr. DONNELLY: What rent were they paying under the terms of the lease?

Mr. WALTON: That was for a four-year term from September 1st, 1926, at a rental of \$151,508 per annum, plus 6 per cent on any capital improvements and also plus insurance and taxes, which averaged about \$40,000 per year. That went on until September 1st, 1930, after which the lease was continued on the same terms until August 31st, 1939. A new lease was made effective September 1st, 1939, with a rental of \$135,000 per annum, plus taxes and insurance and 6 per cent on any capital improvements, with the proviso that the rental would be reduced by one-half in the event that crop conditions rendered operation of the elevator unnecessary in any year. That lease that I have just spoken of runs until August 31, 1943, subject to a notice of one year in advance of cancellation by either party; otherwise it continues in effect from year to year.

Mr. DONNELLY: It is reported by the Pools that they made \$417,000 clear last year. Is it not a fact that almost any elevator would make money last year?

Mr. WALTON: I would presume so under existing conditions.

Mr. DONNELLY: Would it not be wise for you to take over the elevator and run it yourself, as suggested in our agriculture committee?

Mr. WALTON: I would say no. The railways are essentially in the transportation business and not in the marketing of grain. The grain men control large quantities of grain and its routing, and if the railways were to operate this elevator it could not possibly have that control.

Mr. DONNELLY: We are told that this is a government-owned railway and that this is a government elevator and that the government have all the wheat in the country, and therefore why not take this lease and fill this elevator

up with government wheat and save a lot of money for the government—that is the argument that is put up to us.

Mr. WALTON: I appreciate that. Under all the circumstances the government have the right to store wheat in any elevator, and therefore the fact that the Canadian National Railways might be operating this particular elevator would have no bearing on the general question.

Mr. DONNELLY: Is it not a fact that in normal years elevators such as yours which have no feeders in the country—no country elevators to feed them—that they lost money?

Mr. WALTON: I think so.

Mr. DONNELLY: Is it not a fact that in normal years elevators like yours without any feeders in the country got no wheat except the wheat that nobody else wanted; that they got the off grades and the mistakes in grades, and the result was that our terminal elevators, as I understand it, were not able to keep up the grades. Is that so?

Mr. WALTON: That is right.

Mr. DONNELLY: You say that your elevator is rented for four years. Don't you think the government would not be wise in cancelling the lease; is not there a certain sanctity of contract; don't you think you should keep your contract?

Mr. WALTON: I think definitely so.

Mr. DONNELLY: And should not that be one of the arguments why you should not take it over yourself?

Mr. WALTON: Yes.

Mr. DONNELLY: You do not think it is wise for the government to break their contract whenever they like in order to make money?

Mr. WALTON: I could not express an opinion on that.

Mr. DONNELLY: That is my opinion anyway. The government should not break its contract any more than anyone else; it is a bad example to set anyway. I want to ask one or two questions more on page 16 about train fuel. We were discussing this the other day and you said that a lot of your coal came from the United States?

Mr. VAUGHAN: Yes, sir.

Mr. DONNELLY: What tonnage of coal did you buy in the United States?

Mr. VAUGHAN: We have a statement here that we were filing in response to that question. There is a statement here, Dr. Donnelly, showing the coal we bought in Canada and the United States, and we can file it.

Mr. DONNELLY: What class of coal would you buy—steam coal?

Mr. VAUGHAN: Yes.

Mr. DONNELLY: How much did you get out of your own mines?

Mr. VAUGHAN: I do not remember offhand how much of our own coal was used in Canada. Our own mines produced about two million tons.

Mr. DONNELLY: You took it all, did you?

Mr. VAUGHAN: We took it practically all. All that coal would not be used in Canada; part of it would be used on our United States lines.

Mr. DONNELLY: You keep a separate account and you pay your own coal mines for that coal the same as you would pay an outsider?

Mr. VAUGHAN: Exactly.

Mr. DONNELLY: And do you pay them practically the same prices?

Mr. VAUGHAN: Yes, sometimes less; we only pay them cost.

Mr. DONNELLY: Did I understand you to say the other day that the reason why you have to bring in so much American coal is that you could not get the coal in Canada?

Mr. VAUGHAN: Yes.

Mr. DONNELLY: Would that be eastern coal chiefly or from the west?

Mr. VAUGHAN: There was a shortage of eastern coal. We got less eastern coal last year than the year before. For example, in 1941, we purchased eastern coal with a tonnage of about 1,424,175 tons, which was all the coal we could get. The year before, in 1940, we used 1,671,679 tons of eastern coal. We used more western coal in 1941 than we did in 1940.

Mr. DONNELLY: In buying your coal in the United States, is the price you pay so much at the mine and haul it yourself?

Mr. VAUGHAN: The coal has to move over foreign lines to a considerable extent before it reaches our line.

Mr. DONNELLY: That is the case wherever you buy it.

Mr. VAUGHAN: Yes. That coal moves via a large number of routes; some will come from western Kentucky up through Chicago; some will come across lake Erie; some will come by the Niagara frontier; and some will come by car ferries across lake Ontario, and some via Massena.

The committee adjourned at 6 o'clock p.m. to meet at 8.30 o'clock p.m.

EVENING SESSION

The committee met at 8.30 o'clock.

The CHAIRMAN: Order. Gentlemen, before proceeding tonight I may state that Mr. Macdonald will be here from the house in a moment, I expect, to answer whatever questions the committee may submit. It was asked that Mr. Power or someone from his department be here or the Minister of National Defence to deputize for him; but in conversation with Mr. Ralston he expressed the wish that the matter be held over until Mr. Power himself could address the meeting as he would prefer that course. He would prefer not to address the meeting on behalf of Mr. Power and he would prefer not to have anyone deputize for Mr. Power, so in accordance with his wish we might wait until tomorrow when it is expected Mr. Power will be in the capital again. The third point I wish to bring up is that an answer from the delegation of trainmen from the West state they will be here on Wednesday morning or Wednesday afternoon, whichever would be more convenient for us. The fourth matter I wish to mention before we proceed is in connection with the request or the motion made by Mr. Shaw that the Board of Transport Commissioners be asked to attend this meeting. In consultation with a lot of officers of the house I gathered we could bring them here but we could not by any means oblige them to give testimony. That is the result of the inquiry I made.

Mr. SHAW: Mr. Chairman, I cannot imagine what good they will be to us if they decline to testify.

The CHAIRMAN: We can bring them here and they may voluntarily answer some of our questions but we have not the legal competency to make them answer.

Mr. SHAW: I still feel, Mr. Chairman, that they should be brought here and let us take a chance on what their reactions might be; and if this matter is up for discussion at the present moment—may I ask, Mr. Chairman, if it is up for discussion now?

The CHAIRMAN: The meeting is open for that at the moment.

Mr. SHAW: I was also going to move that the C.N.R. members of the Joint Co-operative Committee of the two railways be summoned to appear before this

committee as witnesses, if they are not here now. May I ask if they are here now?

Mr. JACKMAN: May I ask as a matter of information what it is intended to question the Board of Transport Commissioners or the members of the so-called Co-operative Board on?

Mr. GRAY: Mr. Shaw spoke of it on Friday.

Mr. JACKMAN: Branch lines?

The CHAIRMAN: He wished to ask them with regard to line abandonment.

Mr. SHAW: I may say, Mr. Chairman, in connection with that that I am more concerned now than ever about having them here because I received over the week-end a copy of the judgment, if that is the correct term used, handed down and also the minority report. I have learned that the report granting the application was submitted by Mr. H. W. Wardrope of the committee and concurred in by Mr. F. M. MacPherson; but the minority report recommending that the application be not granted was made by the Chief Commissioner, and because of the fact that I now have far more evidence than I had on Friday with respect to this case, I am more concerned than ever with having not only the Board of Transport Commissioners here, but also, as I stated a moment ago, the C.N.R. members of this Joint Co-operative Committee who made the application for the road abandonment of those sections of railways, some C.P.R. and some C.N.R.

The CHAIRMAN: May I suggest here, Mr. Shaw, that we will not detain Mr. Macdonald, but return to this matter later?

Mr. SHAW: That is very fine.

The CHAIRMAN: Now, gentlemen, Mr. Macdonald is here and he has certain figures and certain statements to make. His statement, of course, will be in connection with the apportionment of business between the two railways as regards his department, as you know. Mr. Macdonald, will you make your statement voluntarily?

Hon. Mr. MACDONALD: Gentlemen, I have figures for the amount of freight, passenger and express services paid to the two railroads for the fiscal year ending March 31, 1942, by the Department of Naval Services. In that fiscal year we paid to the Canadian National Railways for freight, passenger and express services the sum of \$1,247,788.62. To the Canadian Pacific Railway for the same period of time we paid the sum of \$567,626.48, for the same services.

Now with regard to telegrams, cables, rental of printer service, telegrams, teletype machines, telegram loops and lease of wires, I am able to give the committee the figures for the last calendar year, the calendar year 1941; and these figures are: to the Canadian National Railways \$99,472.81; to the Canadian Pacific Railway \$97,057.38. These, as far as I know, are the only payments that we made to the railways in our service.

Mr. JACKMAN: You are not aware then of the alleged order since 1932 or 1933 whereby all government departments divided their business on a 50-50 basis between the two railroads, and inasmuch as your department was formerly under the National Defence Department as one department, you did not carry any such order into your new Department of the Navy?

Hon. Mr. MACDONALD: I am glad you asked that question, Mr. Jackman. I might say that the Naval Service regulation in this regard is to be found in the regulations and instructions of the Royal Canadian Navy reprinted in 1942. And Article 281 of these regulations says: "That naval transportation, whether passenger, freight or express, may be routed either by Canadian National Railways or Canadian Pacific Railway according to the convenience and best interest of the service." That is the article which governs the procedure of the Department of Naval Services, with regard to freight, express

and passenger services. There is an order with regard to telegraph service which is in almost exactly similar terms.

Mr. JACKMAN: Any suggestion of a 50-50 division of business?

Hon. Mr. MACDONALD: Not in that regulation there, no. There is a certain arrangement in the Naval Service whereby people of certain parts of the country are moved over one railway and in other parts of the country over another. It was said by the Secretary of the Department of Naval Services, at the time the order was made, that that seemed to be a fairly even distribution or a fairly equitable way to divide the business. That is, Montreal East is given to the C.N.R., and most of Montreal West is given to the C.P.R. It turned out in the last year, however, that the great majority of the naval recruits have come from the five eastern provinces. The bulk of the traffic has been Ontario, Quebec and the Maritime provinces. The three Prairie provinces and British Columbia, in the course of things, have not supplied nearly so many recruits.

Mr. JACKMAN: May I ask the date of the order you read to us?

Hon. Mr. MACDONALD: The naval order?

Mr. JACKMAN: Yes.

Hon. Mr. MACDONALD: Well I have the reprint here. It does not set forth the date. The reprint was made early this year. I could not give my honourable friend at the moment the exact time of this order. I think, however, that it was revised last year and the order regarding telegrams was made on the 27th of December, 1941.

Mr. JACKMAN: I am wondering how it is that the naval department did not take over the same ruling as the original parent, namely the Department of National Defence, is supposed to have on its books. We understand there was an old order on the Department of National Defence records whereby the business was on a 50-50 basis. I presume that, when you set up as an independent department of national defence, many of your standing orders were simply taken from those of the parent department.

Hon. Mr. MACDONALD: No, not necessarily. There have always been naval regulations and it is conceivable that they might be different from the army regulations in that regard.

Mr. NICHOLSON: In supplying transport for men travelling from Halifax to Vancouver, do these men travel over the C.N.R. or what policy is followed in connection with that transportation?

Hon. Mr. MACDONALD: Halifax to Vancouver? I will get that for you in a minute. The rule that was laid down on the 31st of July, 1941,—the rule sent out by the secretary of the naval department was this.

Mr. GRAY: 1941, did you say?

Hon. Mr. MACDONALD: July 31st, 1941. The rule was: Officers drafted to Halifax are to be routed as follows: from divisions west of Montreal, via C.P.R. to Montreal, via C.N.R. Montreal to Halifax. Officers drafted to Halifax from Montreal, Quebec, Saint John, Charlottetown are to go via C.N.R. to Halifax. That is the movement east. The movement to the west would be governed by the following regulations or instructions rather: officers going to Victoria from Charlottetown, Saint John, are to go via C.N.R. to Montreal, via C.P.R. from Montreal to Victoria. Officers coming from all other divisions except Saint John and Charlottetown would go via C.P.R. to Victoria, except in the case of Saskatoon and Edmonton, who would go via C.N.R. to Victoria.

Mr. GRAY: That does not give much leeway to either of the roads. It is a pretty specific order from your department.

Hon. Mr. MACDONALD: Yes.

Mr. MAYBANK: May I re-state that in order to make sure that I have it right. In general they are shipped via C.N.R. to Montreal and thereafter via C.P.R., with the exception of a very few points.

Mr. MACDONALD: You are speaking of officers travelling to the west?

Mr. MAYBANK: Yes.

Hon. Mr. MACDONALD: By C.N.R. to Montreal and then C.P.R. from Montreal to the west coast. That instruction would not apply to the Edmonton and Saskatoon divisions.

Mr. MAYBANK: You mean if they were going to Saskatoon or to Edmonton, or do you mean coming from those places?

Hon. Mr. MACDONALD: No. Officers leaving Saskatoon or Edmonton and going to the coast would travel C.N.R.

Mr. MAYBANK: Yes.

Hon. Mr. MACDONALD: An officer leaving Winnipeg for the west coast would travel C.P.R. all the way.

Mr. MAYBANK: In other words, with regard to Saskatoon and Edmonton, the rule means that you should not ship them to Victoria by C.P.R. because that would be too silly. It is not feasible to do it.

Hon. Mr. MACDONALD: No.

Mr. MAYBANK: It is something like pretty nearly a non-competitive point?

Hon. Mr. MACDONALD: Yes.

Mr. MAYBANK: And then shipments from the coast to Montreal?

Hon. Mr. MACDONALD: From the coast to Montreal?

Mr. MAYBANK: From the east to Montreal.

Hon. Mr. MACDONALD: From the east coast to Montreal?

Mr. MAYBANK: That is the same thing, is it not? That is pretty much non-competitive.

Hon. Mr. MACDONALD: Well, there is not much movement that way. The great training grounds are at Halifax and Esquimalt. The movement is to Halifax or to Esquimalt.

Mr. MAYBANK: Yes. What I am getting at is that you ship them to Montreal on one railroad and take them off and ship them on the other one.

Hon. Mr. MACDONALD: That is correct, in some cases.

Mr. MAYBANK: In that case it means that all the long haul is given to the C.P.R.

Mr. JACKMAN: And the frequent haul is C.N.R.

Mr. MAYBANK: Is that right? I do not want to mistake it.

Hon. Mr. MACDONALD: In divisions west of Montreal, an officer going to Halifax from say Winnipeg or Regina would travel to Montreal by C.P.R. and thence C.N.R. to Halifax.

Mr. MAYBANK: Suppose he was coming from Vancouver, which is farther still?

Hon. Mr. MACDONALD: It would be the same thing.

Mr. MAYBANK: The C.P.R. have the long haul and the C.N.R. have the short. Would there be any very great difference if you just expressed that rule in this way: excluding Saskatoon and Edmonton, the short haul goes to the C.N.R. and the long haul to the C.P.R. Officers just work that out. Would there be any real difference? Is that not what that means? I do not want to mistake it, but that is the way it looks to me.

Hon. Mr. MACDONALD: In the case you have set out, undoubtedly the C.P.R. would have the long haul, yes.

Mr. MAYBANK: And in pretty nearly all the cases. I notice you used the word "officer", Mr. Macdonald. Did the rule apply to ratings too?

Hon. Mr. MACDONALD: I was just trying to get the ruling here, Mr. Maybank, as far as ratings are concerned. I think it is the same thing, but I wanted to get the order relating to ratings. It is the same. I am certain it is the same thing for ratings.

Mr. MAYBANK: There is no difference between officers and ratings?

Hon. Mr. MACDONALD: No.

Mr. MAYBANK: I would not think so.

Mr. LOCKHART: Those orders are issued by whom?

Hon. Mr. MACDONALD: The particular one I have just read came from the naval secretary and is addressed to the commanding officers of all divisions and the officers in command at Halifax, Esquimalt and so on.

Mr. NICHOLSON: I wonder if we could hear those regulations from the blue book read again, the general regulations.

Hon. Mr. MACDONALD: Naval transportation, whether passenger, freight or express, may be routed either by C.N.R. or C.P.R. according to the convenience and best interests of the service.

Mr. NICHOLSON: It seems to me that people coming from the west to Halifax, for example, from C.N. points could travel with less confusion via C.N. throughout.

Hon. Mr. MACDONALD: What points?

Mr. NICHOLSON: From Winnipeg to Halifax.

Hon. Mr. MACDONALD: What is the confusion? You change at Montreal, anyway.

Mr. NICHOLSON: You have to change stations. If you go by C.N., you have to change stations. I cannot see the argument for having that change if you carry out your rules in the blue book. It would seem to me that the men should travel on the C.N., certainly from points on the C.N. west of Montreal.

Hon. Mr. MACDONALD: Mr. Maybank is quite right. The long haul goes to the C.P.R. But as I pointed out in the early part of my statement, the bulk of the transport of men is in the Ontario, Quebec and Maritime regions.

Mr. MAYBANK: Ontario, Quebec and Maritimes?

Hon. Mr. MACDONALD: Yes.

Mr. MAYBANK: If a shipment of men from or to a point in Ontario from the east coast, or from either coast, is concerned, that would go C.P.R. to Montreal.

Hon. Mr. MACDONALD: From Toronto to say Halifax?

Mr. MAYBANK: Yes.

Hon. Mr. MACDONALD: It would go C.P.R. to Montreal and then C.N.R., yes.

Mr. MAYBANK: That is between Montreal and the west coast it would go C.P.R. wherever possible. Is that right?

Hon. Mr. MACDONALD: Yes.

Mr. MAYBANK: The preference, once we get east of Montreal, is by C.P.R. Is that not right?

Hon. Mr. MACDONALD: I would not want to call it preference.

Mr. GRAY: It comes to this point, that where there is competition, under that order it goes C.P.R. Where there is not any competition, it goes C.N.R. From Montreal to Halifax you cannot travel any other way.

Hon. Mr. MACDONALD: Oh, yes, you could. You could travel from Montreal to Halifax via Digby-Saint John.

Mr. MAYBANK: I do not personally know very much about the railroad east of Montreal, but I have always understood that the C.N.R. was the much more feasible route between points in the Maritimes from Montreal. Some of you Maritimers can correct me if I am wrong.

Mr. HAZEN: It depends where you are going.

Hon. Mr. MACDONALD: Yes, it depends where you are going.

Mr. MAYBANK: It depends on where you want the men. Is it not a fact that for the naval men, the C.N.R. is the only feasible route east of Montreal?

Hon. Mr. MACDONALD: Well, from the point of view of time, there is not much in it.

Mr. MAYBANK: There is not much in it in point of time?

Hon. Mr. MACDONALD: No.

Mr. MAYBANK: One road is as good as another. From what other point of view is the C.N.R. superior there as the more feasible route?

Hon. Mr. MACDONALD: Well, going to Halifax by C.P.R. you would have to change at Saint John to the boat to Digby and then take the Dominion-Atlantic railway to Halifax. That would be two changes.

Mr. DONNELLY: You would have to travel through the United States, too. You would have to travel through Maine.

Mr. MAYBANK: That is a method of shipping officers and ratings that the naval service has never followed. They would not consider it feasible. Is that not so?

Hon. Mr. MACDONALD: What is that? Going on a boat?

Mr. MAYBANK: I was not intending to suggest that you would object to the boys being on the boat. That was not the point.

Hon. Mr. MACDONALD: No.

Mr. MAYBANK: It would seem to me if you wanted to ship officers and ratings, you would not want to make two or three changes.

Hon. Mr. MACDONALD: The average persons going to Halifax from Montreal would take C.N.R. because there is no change whatever. He remains in his car until he gets to Halifax.

Mr. MAYBANK: And it is, as a consequence, what you would call the natural route for your men?

Hon. Mr. MACDONALD: Yes, to Halifax.

Mr. MAYBANK: And Halifax is the main place to which you send them, I think you said a short time ago.

Hon. Mr. MACDONALD: Yes.

Mr. MAYBANK: So that we do come down to the proposition, do we not, that east of Montreal it is practically non-competitive territory?

Hon. Mr. MACDONALD: Yes.

Mr. MAYBANK: What I am getting at or what I cannot understand is the disparity in figures, where there is about one and a quarter million paid to the C.N. and a little over half a million paid to the C.P. and yet the preference is given to the C.P.R. whenever there is equal opportunity.

Hon. Mr. MACDONALD: I should like some other word than "preference."

Mr. MAYBANK: Well, that is the word that gets into use in traffic. I do not use it in any other sense than it is commonly used in traffic matters. You can use any other word you like. It seems to be weighted in favour of the C.P.R. whenever possible; whether the word "preference" is the right word to use or not, is immaterial.

Hon. Mr. MACDONALD: The figures are weighted the other way.

Mr. MAYBANK: I was wondering where this money is earned, whether it is non-competitive money in the main. It cannot be very much competitive.

Mr. VAUGHAN: It may be, of course, that a good many of the men were ticketed by us and we paid over to the C.P.R. perhaps a large percentage of the money we got.

Mr. MAYBANK: That is what I was wondering about. We know those fares are paid to the C.N.R. but they in turn pay them over to the C.P.

Mr. NICHOLSON: It is often competitive. For instance, where would that happen?

Mr. MAYBANK: Suppose the fare is paid in Halifax and the ticket covers both railways. The C.N.R. will have to account for that to the C.P.

Hon. Mr. MACDONALD: They will have to account for some of it, yes.

Mr. MAYBANK: What is that?

Hon. Mr. MACDONALD: They will have to account for some of it; and I suppose the C.P. would have to do the same thing with the C.N.

Mr. MAYBANK: Yes, except that in this case the C.P. would not have to cough up so much because we do not ship them that way.

Mr. NICHOLSON: In supplying transportation to a man from Halifax to Vancouver, is it correct that these tickets would be bought from the C.N. and the money paid to the C.N. and the man travel C.N. from Halifax to Montreal and C.P. from Montreal to Vancouver? Is that the procedure to be followed?

Hon. Mr. MACDONALD: I do not know how he would buy his ticket in Halifax. I have to find that out. He might buy his ticket from the C.P. there.

Mr. DONNELLY: Has a man any preference at all, or has he got to go the way he is told?

Hon. Mr. MACDONALD: He has to go the way he is sent.

Mr. DONNELLY: He has no preference at all.

Hon. Mr. MACDONALD: No.

Mr. MAYBANK: I wonder if the C.N.R. officials could enlighten us on this. They might be able to explain the one and a quarter million against a little over half a million; it is not very meaningful after all.

Hon. Mr. MACDONALD: It is not meaningful? Oh, I think it is.

Mr. MAYBANK: The money might be paid out to the other railroad.

Hon. Mr. MACDONALD: I think it would be right to say there is no great amount of traffic from Halifax to Vancouver direct. You see, the great movement is from points away from the coast to the coast; the great movement is from Ontario, Quebec and New Brunswick in to Halifax.

Mr. MAYBANK: Going in for the first time, and I suppose, coming back on leave.

Hon. Mr. MACDONALD: Going in for training, we would say. Or, you would have a heavy movement from Saskatchewan, Alberta and Manitoba to the coast, to the west coast. I think transcontinental movement would be fairly restricted. There would be the odd case where you would have to send some man, an instructor, or something of the kind. We have never sent a man for training, that I recall, from Halifax to Esquimalt, or from Esquimalt to Halifax. The great bulk of the movement would be what might be called inland, from points inland to the coast; and of that movement the larger portion is in the five eastern provinces, Ontario, Quebec and the Maritimes; because the bulk of the population is there and two-thirds of the naval recruits have come out of those five provinces.

Mr. NICHOLSON: I wonder if Mr. Vaughan might enlighten us as to why a man who travels from Halifax to Vancouver would have a C.N.R. ticket, and whether the C.N. would have to pay the C.P.?

Mr. VAUGHAN: It would be a through ticket from Montreal to Vancouver with a C.N.R. coupon as far as Montreal, and a C.P.R. coupon from Montreal to Vancouver or Victoria.

Mr. NICHOLSON: And the C.N.R. would be paid the entire amount?

Mr. VAUGHAN: Yes.

Hon. Mr. MACDONALD: Could a man buy a C.P.R. ticket in Halifax with a C.N.R. coupon for the first part of it?

Mr. VAUGHAN: He could. I would say that the first part of the trip would have to be by C.N.R.—perhaps Mr. Fraser could tell us something more about the ticket end of it.

Mr. FRASER: Certainly, a man could go into a Canadian National office in Halifax and buy a ticket for the complete journey from Halifax to Vancouver; Canadian National to Saint John, C.P.R. Saint John to Vancouver; or Canadian National to Montreal and C.P.R. from Montreal to Vancouver; or, Canadian National to any other point in Canada and C.P.R. from there on. He can buy one in the Canadian National office; if that is the point.

Mr. MAYBANK: Can he buy one when his first hundred yards would be the Canadian Pacific?

Mr. FRASER: Yes, from the Canadian Pacific.

Mr. NICHOLSON: The minister's explanation of policy is that these men have to travel from Halifax to Montreal by C.N.

Mr. FRASER: Yes.

Mr. NICHOLSON: And from Montreal to Vancouver by C.P.

Mr. FRASER: Yes.

Mr. NICHOLSON: Would the policy be to have their original tickets bought from the C.N.R.?

Mr. FRASER: Yes.

Mr. NICHOLSON: And an adjustment would be made with the C.P.R. in due course; that would be the policy?

Mr. FRASER: That is the only way in which it could be done.

Mr. EMMERSON: Could a man go into a C.P.R. telegraph office in Halifax and buy a ticket to Vancouver from the C.P.R. ticket agent?

Mr. FRASER: Yes, in which case he would travel by Dominion Atlantic Railway and cross the Bay of Fundy, if he wanted, and go from there by Canadian Pacific Railway.

As a matter of fact, you could go into a Canadian Pacific office if you wanted and purchase a ticket from Halifax to Vancouver via Canadian National to Montreal and Canadian Pacific to destination. The agent of the Canadian Pacific at Halifax would be able to arrange that, but he would have to get a ticket issued by the Canadian National.

Mr. EMMERSON: Could you not ride out of Halifax on the D.A.R. to Windsor?

Mr. FRASER: Yes.

Mr. MAYBANK: You have given us figures apparently which indicate that more money was paid to the C.N.R. than to the C.P.R.?

Hon. Mr. MACDONALD: Yes.

Mr. MAYBANK: And he goes Canadian National to Montreal and from there west he goes C.P.R.; can you give us an explanation on that?

The CHAIRMAN: Just a minute; are you through with Mr. Macdonald?

Mr. FRASER: I do not know whether I am on the stand or not.

The CHAIRMAN: I do not know that myself, Mr. Fraser. They have pretty well mixed the witnesses. I was wondering if you are through with the minister?

Mr. MAYBANK: Just a few moments ago Mr. Macdonald was trying to give us an explanation, and he came to a point where he said he was unable to explain. I was then asking if perhaps the Canadian National officials could explain this disparity; and then just a few minutes later Mr. Fraser arose and answered some questions. That is what I was at. I should like to know at this point if there are other things which the Canadian National officials might clear up.

The CHAIRMAN: Yes. I was merely ascertaining if the committee are through with the Hon. Mr. Macdonald.

Some Hon. MEMBERS: No, no.

Mr. MAYBANK: I thought probably it would be further enlightening to Mr. Macdonald himself.

Hon. Mr. MACDONALD: The only explanation that I can give is that the bulk of the movement is in the eastern provinces, which is largely C.N.R. movement. I think that is the only explanation. Whether the railroad officials would agree with that or not, it is the only explanation I can see.

Mr. MAYBANK: I am not disputing the point, I just want to clear it up. Can we at this point see what the explanation is from the Canadian National officials?

The CHAIRMAN: Yes, very good.

Mr. MAYBANK: I would like to ask that of Mr. Fraser.

The CHAIRMAN: All right, Mr. Fraser.

Mr. MAYBANK: You know the situation now, can you give any explanation of it?

Mr. FRASER: I think the minister's (Hon. Mr. Macdonald) explanation is the correct one. You see, the logical movement is through the port of Halifax which is the important naval port so far as the movement of freight and passengers are concerned, over Canadian National Railway; because it is only common sense and good service to take a passenger from a certain point and land him without change of car, if it can be done, at the port; or, take him from a port to his destination. Now, the only railway that can do that is the Canadian National Railway, and the bulk of the travel to and from Halifax is, as the minister has said, from territory Montreal and east, and Ontario, contiguous to Montreal; so that in the nature of things, if you give that business from the west to Montreal to the Canadian Pacific, the Canadian National proportion must be two to one, if you like.

Mr. MAYBANK: It is more like three to one.

Mr. FRASER: The only thing about it, if I might make this observation, is this, it comes squarely within what I said before; that we say that being so you must therefore say to the Canadian National because of your favourable position there you cannot get anybody between Vancouver and Montreal.

Mr. MAYBANK: That is the point.

Mr. FRASER: That is my point; and again I say, I would like very much to have that regulation changed—unless it is public policy that some of the business must of necessity as a matter of public policy go to the Canadian Pacific.

Mr. MAYBANK: That point might be brought out by Mr. Macdonald. The other ministers who were here to-day indicated that they would be willing to see any restrictions wiped out. There is a restriction that the C.N.R. could not get more than 50 per cent of the business—they split 50/50—anyway you

want to take that. Now, would the minister (Mr. Macdonald) be agreeable, similarly, to have an order go out that the business should go what is the natural way for it, without regard to instructions or restrictions?

Hon. Mr. MACDONALD: Do you mean, taking Canada as a whole?

Mr. MAYBANK: Yes.

Hon. Mr. MACDONALD: Well, I would like to consult—

Mr. GRAY: If I might suggest, Mr. Minister (Hon. Mr. Macdonald), it will be in accordance pretty well with the order you read out of your book—I do not know which one—the second one you read from is very definite as to what troop movement must be, and your first order is along the lines that were suggested by the Minister of Transport (Hon. Mr. Cardin), as a matter of policy to-day; and by Mr. Vaughan, and others who have proposed it. It seems to me your second order, as read by you, from the Naval Secretary, being in such definite terms, nullifies largely the general order which you read from the blue book, do I make myself plain?

Hon. Mr. MACDONALD: Yes. You will observe, of course, there is no 50/50 division?

Mr. GRAY: I appreciate that.

Hon. Mr. MACDONALD: It is two to one; I think it is better than two to one.

Mr. NICHOLSON: My understanding of it is that where there was a point served exclusively by C.P.R. the shipment coming from that point to Winnipeg, a competitive point, that shipment would go over the C.P.; and, similarly, if it originated on a C.N. point it would go over the C.N. as far as indicated and then transfer to the C.P. It seems to me that same policy might be followed in connection with your department at points served exclusively by one railway. You might expect to have movements from that point as far as possible on through lines of railway, without having a transfer made, rather than having them travel to Montreal, which is really quite close to Halifax.

Mr. SISSONS: Could we have the first order read again?

Hon. Mr. MACDONALD: How long is the committee sitting, Mr. Chairman?

The CHAIRMAN: We will be sitting to-morrow afternoon.

Hon. Mr. MACDONALD: I would be glad to discuss this with the secretary and ask him on what ground the decision was arrived at. The order states that the regulations were arrived at after consultation with both railways and was agreeable to both of the railways. Now, I understand there is some issue about that. Mr. Vaughan and Mr. Fraser have said that was not quite so. The secretary of my department has been away on sick leave but he is back now, and I would like to consult him to find out whether consultation was had with representatives of both roads; and whether actually there was agreement to this arrangement, that it should be C.N.R. east, and C.P.R. west, with the exception of Edmonton and Saskatoon. Now, I can't find out whether he actually had the assent of the railways, as he states. I understand that the C.N.R. raises some question about that.

Mr. VAUGHAN: I could not say, Mr. Chairman, whether he did; do you know that, Mr. Fraser?

Mr. FRASER: There is a file on it, Mr. Vaughan. I would like the minister (Hon. Mr. Macdonald) to get that information. I would not be a party to any such arrangement.

Mr. VAUGHAN: I could hardly believe our people would willingly agree to allow business originating in Halifax and going to Vancouver to be turned over at Montreal to the C.P.R. when we could haul it all the way.

Mr. FRASER: If anyone on our staff did that we ought to get rid of them.

The CHAIRMAN: Do you want this order read, Mr. Sissons; it is in the record?

Mr. SISSONS: That would be all right.

Mr. MAYBANK: Possibly this should come up again when Mr. Macdonald comes back—following that discussion you spoke of I wonder if it would not be a good idea to get a little bit more information on these figures from the Canadian National. In the first place, I presume, most of that money refers to the movement of officers and ratings; and in the second place I would like to know from the Canadian National if they can tell us if they have any idea what proportion of that money they got they had to pay out again for the Canadian Pacific; also we can see if we can find out whether there is any unreality there in this comparison.

Mr. VAUGHAN: We are trying to obtain those figures.

Mr. MAYBANK: Will you work that out?

Hon. Mr. MACDONALD: What you want me to do is to find out the basis for this matter and whether it was actually agreed to by representatives of both roads. Is that the further information you want?

The CHAIRMAN: Yes.

Hon. Mr. MACDONALD: I shall be glad to appear tomorrow if the committee is sitting.

Mr. NICHOLSON: I wonder if the minister would discuss whether the order he read from the blue book might be considered as the only official order that might come from his department regarding instructions cancelling those restrictions?

Mr. JACKMAN: May I ask the minister what the principle behind these departmental orders is? Is it felt that it is not proper to leave in the hands of the deputies or the officers of the department who will have the routing of the business the determination as to which line the traffic shall go over? Must you have definite specified rulings and amounts instead of leaving to the particular officer in charge as to which line you shall select? Every department seems to have rulings or understandings, sometimes carried out and sometimes not, as to what proportion of the business each line shall receive. What is the principle behind that? Why do you have to tie down officials at all?

Hon. Mr. MACDONALD: It will be necessary to tie down individual movements of drafts because I do not think you could have a draft proceeding, say, from Winnipeg to Vancouver some by C.N.R. and some by C.P.R.; they would all have to go one way, because they are in charge of an officer or a petty officer. That would have to be clearly set forth on each individual occasion. I do not say you could not send a draft from Winnipeg today by one road and next month by another road, but you cannot begin to split up drafts. One man might say that he would like to go by the C.N.R. and another by the C.P.R. He has got to do what he is told and go where he is under some sort of controlled discipline.

Mr. JACKMAN: Take the case of a freight shipment for the navy going to an eastern Canadian port—a propeller part that has been made in Toronto or some place west—has that got to go via the C.P.R. to Montreal? Is the actual freight transferred to a C.N.R. train from there so there is a rehandling expense involved?

Hon. Mr. MACDONALD: The orders I have read do not apply to freight; they apply to passengers. I do not know of any orders with regard to freight. I shall be glad to find that out.

Mr. HANSON: Take the case of a man, a rating in the navy, going from Esquimalt, say, to Montreal or Halifax, he cannot go into a C.N.R. office and buy a ticket on the C.N.R.; he has to go to Montreal by the C.P.R.

Hon. Mr. MACDONALD: Going from the west to Halifax?

Mr. HANSON: From Vancouver or Esquimalt to Halifax.

Hon. Mr. MACDONALD: Yes, you are right.

Mr. HANSON: He could not go C.N.R. if he wanted to?

Hon. Mr. MACDONALD: No.

Mr. HANSON: He would have to go C.P.R.?

Hon. Mr. MACDONALD: Yes, to Montreal.

Mr. HANSON: That does not seem just right. That is the only route from Vancouver direct to Halifax without any inconvenience for him to travel by, whether they are naval men or civilians. If he goes to Montreal it means he has to move from one station to another or travel around in a taxi or something, if he buys a ticket in Vancouver on the C.N.R.

Hon. Mr. MACDONALD: They would march across. That is what they do at Montreal; they march from Windsor station to Bonaventure.

Mr. HANSON: If they are in a company or a troop, but what do they do if there are one or two or three officers?

Hon. Mr. MACDONALD: Oh, yes, they would have to go over.

Mr. HANSON: They would not be marching; they would have to have transportation from one station to another, and maybe they would have to stay overnight and probably miss a train.

The CHAIRMAN: In the case of individual travellers, would they be allowed any option, or would they have to follow a general rule?

Mr. HANSON: The minister says no.

The CHAIRMAN: He was talking about groups just now.

Mr. HANSON: I asked him about individuals too.

Hon. Mr. MACDONALD: If they are being sent officially, so to speak, they would have to follow this general rule.

Mr. SHAW: Do I understand, Mr. Chairman, that when a man goes on leave he is free to choose whatever line of rail he cares to travel by?

Hon. Mr. MACDONALD: I think that is true, although I am not sure. I think this only applies to movements that are entirely paid for by the Navy. I should think if a man were going on leave where he would be contributing a part of the cost himself that he would be free to choose. However, I would like to examine that.

Mr. SHAW: Mr. Chairman, my reason for asking that question was that I did receive one complaint orally by an individual that one extra day was taken off his leave by virtue of the fact that he had to go by a rather roundabout route in order to continue to travel on the one system of railroad, and I am of the opinion that if that is the case some consideration ought to be given to an adjustment there. Either they should be allowed an extra day to go by this circuitous route or else they should be allowed to travel in the shortest possible way.

Hon. Mr. MACDONALD: Do you know which route that man had to take? Do you recall that?

Mr. SHAW: It was in northern Saskatchewan somewhere. He just pointed out that he had gone within at least a few miles of his home and then had to go half way around it and back. I did not put down any figures. I wanted to know what the principle involved was.

Hon. Mr. MACDONALD: I do not think this applies to leave. This deals with men moving for training or something of that sort entirely at the government's expense and under government supervision, so to speak; but I will make sure on that point and be able to give you a definite answer tomorrow.

Mr. MAYBANK: What is the exact procedure when a fellow goes on leave? He buys his ticket himself and gets a reduction when he presents himself at the ticket office; is that it?

Hon. Mr. MACDONALD: My impression is that he is free to travel whichever way he wishes.

Mr. MAYBANK: I think that is so myself.

Hon. Mr. MACDONALD: But I will find that out.

Mr. MAYBANK: He is given some sort of a warrant. I wonder whether it is something addressed to a railroad company.

Hon. Mr. MACDONALD: It is a general thing, is it not? It is a general warrant for railway travel.

Mr. MAYBANK: Is it an open letter? I thought it would be.

The CHAIRMAN: Is the committee finished with Mr. Macdonald for this evening?

Hon. Mr. MACDONALD: I will appear tomorrow with further information.

The CHAIRMAN: Now, I think we had better clear up this matter which was raised by Mr. Shaw.

Mr. SHAW: Mr. Chairman, when we were discussing this matter before I asked if any of the C.N.R. members of the Joint Cooperative Committee who made application or who with similar officials of the C.P.R. made joint application are here to-day.

Mr. VAUGHAN: None of them is here.

(A lengthy debate on the motion by Mr. Shaw took place.)

The CHAIRMAN: Gentlemen, that brings us back to finishing the report of the Canadian National Railways.

Mr. NICHOLSON: Mr. Chairman, I asked a question the other day regarding the possibility of—

Mr. GRAY: Mr. Chairman, how would you like to consider adjourning?

The CHAIRMAN: A motion to adjourn is always in order.

Mr. GRAY: I move that we adjourn.

Mr. HANSON: I would second the motion.

Some HON. MEMBERS: Let's go ahead and finish it up.

Mr. GRAY: Mr. Chairman, is my motion overruled?

The CHAIRMAN: No, not at all, Mr. Gray. I will now put your motion.

The motion being put it was carried and the committee adjourned at 10:05 o'clock p.m. to meet again to-morrow, Tuesday, May 5th, 1942 at 4 o'clock p.m.

APPENDIX " B "

CANADIAN NATIONAL RAILWAYS

MONTREAL

R. C. VAUGHAN,
President.

MEMORANDUM OF REASONS FOR TRAVELLING AND
SHIPPING VIA C.N.R.1. *For Service—*

The traveller or shipper via the Canadian National gets to a maximum extent the benefit of direct service to points in Canada and to many points in the United States. The Canadian National is in a position to give direct service via its own lines to a greater extent than any of its competitors. It reaches by direct service 89% of Canada's population.

2. *For Fairness—*

Where a choice of routes for travelling or shipment exists and the question arises as to what proportion of competitive traffic should, in all fairness, be routed via the Canadian National it might be kept in mind that the Canadian National is carrying a large burden in supplying the greater proportion of development and pioneering railways in Canada, the support of which must largely be found in competitive traffic moving between the principal centres. The measure of the essential service performed by railways is the area exclusively served by it. Of the territory served by railways in Canada, 60% depends exclusively upon the Canadian National and it is fair and reasonable therefore that the Canadian National should obtain at least two-thirds of the competitive business, having regard to the fact that essential services in exclusive territory must often be conducted at a loss.

3. *For Normal Competition—*

It is customary to think of Canadian railway competition in terms of two companies and to draw from this condition the inference that a 50-50 division of traffic is fair, but if the lines which have been absorbed into the two large railway systems in Canada were in independent competition, those which now comprise the Canadian National System would be competing for at least 65% of the country's railway traffic. A 50-50 division of traffic overlooks this fact and works a double hardship on the Canadian National because if the total traffic is divided 50-50 and, as pointed out above, 60% of non-competitive traffic must be routed by the Canadian National because of geographical necessity, it results in the Canadian National obtaining less than 50% of the straight competitive traffic whereas by virtue of the essential service it renders to the country the Canadian National is entitled to at least two-thirds of the competitive traffic to enable it to carry its greater proportion of unprofitable but essential services.

4. *To Spread Overhead Costs—*

The heavy fixed charges of the Canadian National for interest payments on its funded debt as well as its heavy tax bill must be met. When competitive traffic is routed via the Canadian National it helps to spread this burden of fixed charges which must be met in any event.

5. To Help Balance the Federal Budget—

The Canadian National is entirely owned by the people of Canada and the National Budget therefore includes the profit or loss of the railway. The consolidated revenue of Canada is increased every time a passenger or shipment is routed via the Canadian National. In each case the consolidated revenue is increased by the difference between the amount of the fare or freight charges and the out-of-pocket cost of rendering service.

6. As a Method of Paying Taxes—

The profit on every ticket or freight bill via the C.N.R. is the equivalent of paying just that amount of taxes. The average out-of-pocket expense ratio is 50%, so that for every dollar paid to the C.N.R. for service, fifty cents will be removed from Canada's collective tax bill.

APPENDIX "C"

CANADIAN NATIONAL RAILWAYS

STATEMENT OF COAL PURCHASES 1940-1941

	1940			1941		
	Canadian Lines	United States Lines	Total	Canadian Lines	United States Lines	Total
Canadian Coal—Eastern...	1,671,679	—	1,671,679	1,424,175	—	1,424,175
Western ..	1,639,861	—	1,639,861	1,714,723	—	1,714,723
Total—Canadian	3,311,540	—	3,311,540	3,138,898	—	3,138,898
United States Coal.....	1,740,779	849,226	2,590,005	3,228,135	1,115,135	4,343,270
British Coal.....	33,996	—	33,996	—	—	—
Total purchases.....	5,086,315	849,226	5,935,541	6,367,033	1,115,135	7,482,168

APPENDIX "D"

CANADIAN NATIONAL RAILWAYS

HOTEL OPERATING RESULT—YEARS 1941-1940

Year 1941	Revenues	Expenses	Taxes	Net
Charlottetown	\$ 107,829 07	\$ 102,473 79	\$ 4,562 67	\$ 792 61
Pictou Lodge.....	28,597 59	28,104 96	321 94	170 69
Nova Scotian.....	603,286 42	481,569 55	12,930 38	108,786 49
Chateau Laurier.....	1,759,514 59	1,290,283 66	63,487 50	405,744 00
Prince Arthur.....	208,032 97	181,726 46	6,073 83	20,232 68
Minaki Lodge.....	71,122 58	63,317 60	416 00	7,388 98
Fort Garry.....	415,601 82	379,538 18	27,761 25	8,302 39
Prince Edward.....	131,541 61	131,966 54	3,658 01	4,082 94
Macdonald	418,741 72	399,670 93	15,245 14	3,825 65
Jasper Park Lodge.....	429,699 00	374,121 82	5,486 32	50,090 86
Bessborough	293,111 16	300,989 44	1,872 42	9,750 70
	<u>\$4,467,078 53</u>	<u>\$3,733,762 27</u>	<u>\$ 141,815 55</u>	<u>\$ 591,500 71</u>
Year 1940				
Charlottetown	\$ 87,628 72	\$ 88,627 38	\$ 3,637 48	\$ 4,636 14
Pictou Lodge.....	17,538 68	23,826 70	219 60	6,507 62
Nova Scotian.....	454,810 97	358,479 76	11,472 07	84,859 14
Chateau Laurier.....	1,601,757 67	1,145,844 20	60,793 55	395,119 92
Prince Arthur.....	169,672 17	161,347 33	5,882 00	2,442 84
Minaki Lodge.....	61,781 86	56,197 81	.....	5,584 05
Fort Garry.....	370,478 14	375,366 98	26,216 62	31,105 46
Prince Edward.....	119,567 88	113,959 60	3,268 15	2,340 13
Macdonald	389,118 88	375,501 14	13,964 79	347 05
Jasper Park Lodge.....	380,465 34	336,281 85	3,060 00	41,123 49
Bessborough	283,492 95	269,374 16	806 02	13,312 77
	<u>\$3,936,313 26</u>	<u>\$3,304,806 91</u>	<u>\$ 129,320 28</u>	<u>\$ 502,186 07</u>

APPENDIX "E"

CANADIAN NATIONAL RAILWAY SYSTEM

Statement of taxes paid in 1941 (other than sales tax added to cost of material)
on Railway, Hotels and Separately Operated Properties

CANADA

Dominion Government—			
Unemployment Insurance.....	\$	453,943 20	
Excise Stamps.....		81,550 02	
			\$ 535,493 22
Provincial and Municipal:			
Prince Edward Island—			
Provincial		40,400 00	
Municipal		164 00	
Hotel		4,562 67	
			45,126 67
Nova Scotia—			
Provincial		104,595 71	
Municipal		4,817 00	
Hotel		13,252 32	
			122,665 03
New Brunswick—			
Provincial		128,637 98	
Municipal		4,966 45	
			133,604 43
Quebec—			
Provincial		104,924 04	
Municipal		782,089 10	
Separately Operated Properties.....		72,525 10	
			959,538 24
Ontario—			
Provincial		448,424 74	
Municipal		959,456 26	
Hotel		69,977 42	
Separately Operated Properties.....		76,776 65	
			1,554,635 07
Manitoba—			
Provincial		302,000 00	
Municipal		36,803 30	
Hotel		31,419 26	
			370,222 56
Saskatchewan—			
Provincial		220,645 00	
Municipal		10,252 00	
Hotel		1,872 42	
			232,769 42
Alberta—			
Provincial		95,159 95	
Municipal		161,150 00	
Hotel		20,731 46	
Separately Operated Properties.....		47,483 69	
			324,525 10
British Columbia—			
Provincial		273,923 60	
Municipal		151,762 08	
Separately Operated Properties.....		35,995 54	
			461,681 22
Other Unallocated Taxes—			
Miscellaneous A/c 544.....		2,420 81	
Separately Operated Properties (Land Cos.).....		238,066 99	
			240,487 80
Total Canadian.....			\$4,980,748 76

UNITED STATES

Carriers Taxing Act, 1937.....	620,580 48	
Railroad Unemployment Insurance.....	615,754 28	
Other Taxes.....	1,588,216 02	
		2,824,550 78
Total United States.....		\$2,824,550 78

OTHER COUNTRIES—Great Britain, Mexico, Hong Kong, Australia and New Zealand		30,937 02
Total Canadian National Railway System.....		\$7,836,236 56

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SESSION 1942

HOUSE OF COMMONS

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STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

TUESDAY, MAY 5, 1942

WITNESSES:

Hon. Angus L. Macdonald, K.C., M.P., Minister of National Defence
(Navy).

Mr. R. C. Vaughan, President, Canadian National Railway System.

Mr. N. B. Walton, Vice-President of Operations, Canadian National
Railway System.

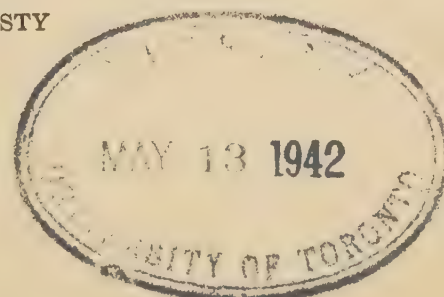
Mr. T. R. Cooper, Comptroller, Canadian National Railway System.

Mr W. M. Armstrong, Assistant Chief of Research and Development,
Canadian National Railway System.

Mr. O. A. Matthews, of A. Touche & Co., Auditors.

Mr. F. M. MacLennan, Chief Treasury Officer, Dept. of Transport.

OTTAWA
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1942



MINUTES OF PROCEEDINGS

HOUSE OF COMMONS, ROOM 277,

TUESDAY, May 5th., 1942.

The Standing Committee on Railways and Shipping owned, operated and controlled by the government, met this day at 4 o'clock p.m. Mr. J. P. Howden, Chairman, presided.

Members present: Messrs. Bradette, Donnelly, Dubuc, Emmerson, Ferland, Gray, Hanson (*Skeena*), Harris (*Danforth*), Hazen, Howden, Jackman, Lockhart, McCulloch, Maybank, Nicholson, Sanderson, Shaw, Sissons.

In attendance: The officials of the Canadian National Railways, viz: Mr. Hungerford, Mr. Vaughan, Mr. Walton, Mr. Alistair Fraser, Mr. Cooper, Mr. Armstrong and Mr. Thompson; Mr. O. A. Matthews representing A. Touche & Co., auditors. Mr. C. P. Edwards, Deputy Minister of Transport with Mr. F. M. MacLennan, Chief Treasury Officer.

The Committee proceeded with the adjourned study of the Annual Report of the Canadian National Railway System for the year ended 31st December 1941.

Mr. R. C. Vaughan, with the assistance of Mr. N. B. Walton, Mr. W. M. Armstrong and Mr. T. H. Cooper gave the Committee all the information it required.

On motion of Mr. Donnelly the said Annual Report was adopted unanimously.

Before the close of the sitting Mr. Shaw requested that his remarks of Monday evening, May 4th, in connection with his motion which had been subsequently withdrawn together with the remarks of Honourable P. J. A. Cardin, be made part of the printed record as he stated the Clerk of the Committee had informed him that the debate on motions before a Committee was not ordinarily reported.

Whereof Mr. Shaw moved, seconded by Mr. Maybank,

That the Report of the debate which had taken place on the motion of Mr. Shaw (subsequently withdrawn) on Monday evening, May 4th, together with the remarks of Honourable P. J. A. Cardin be printed as an addendum to the printed report of proceedings and evidence of to-day.

And the question being put on the said motion it was resolved in the affirmative on the following division: Yeas, 11; Nays, 3.

Mr. McCulloch thereafter moved that the Committee adjourn to meet again at 8.30 in the evening.

And the question being put on the said motion, it was resolved in the affirmative on the following division: Yeas, 9; Nays, 5.

At 6.00 o'clock the Committee adjourned to meet again at 8.30 o'clock in the evening.

EVENING SESSION

The Committee met again at 8.30 o'clock p.m. Mr. J. P. Howden, the Chairman, presided.

Members present: Messrs. Bradette, Donnelly, Emmerson, Ferland, Gray, Hanson (*Skeena*), Harris (*Danforth*), Hazen, Howden, Lockhart, McCulloch, Maybank, Nicholson, Sanderson, Shaw, Sissons.

In attendance: The same officials listed for the afternoon sitting.

The committee approved the following items of the Estimates for 1942-43 as referred to it by the Order of Reference dated April 29th., 1942.

400 Maritime Freight Rates Act, Canadian National Railway Eastern Lines	\$3,350,000
401 Maritime Freight Rates Act—Railways other than Canadian National Railways	900,000
410 Canadian National (West Indies) Steamships Limited—Capital—Advances.	20,000
411 Prince Edward Island Car Ferry and Terminals Deficit 1942	400,000

The Committee afterwards considered the Report of A. Touche & Co., the auditors.

Mr. O. A. Matthews, representing the firm of auditors read the report and was questioned on certain aspects of the Report.

On motion of Mr. McCulloch the said Report was adopted unanimously.

The Committee then took up the study of the Annual Report of the Canadian National Railways Securities Trust, for the year ended 31st December, 1941.

Mr. F. M. MacLennan, the Secretary, read the report and was examined thereon.

On motion of Mr. Gray the said Report was adopted unanimously.

The Committee at this stage of the proceedings considered the Budget of the Canadian National Railway System for 1942.

Mr. Armstrong read the items of the Budget and questions were put thereon to the officials of the Canadian National Railways.

On motion of Mr. Donnelly the said Budget was adopted unanimously.

On motion of Mr. Gray, the Chairman was instructed by the Committee to report the Items of the Estimates, approved earlier, to the House.

The Committee recalled Hon. Angus L. Macdonald, the minister of National Defence for the Navy. The minister was examined on the question of the division of government-controlled transport business between the C.N.R. and the C.P.R.

Mr. C. R. Vaughan and Mr. Alistair Fraser, President and Vice President respectively of the Canadian National Railways made statements following the testimony of the Minister of National Defence for the Navy.

Mr. Maybank then moved that the Committee adjourn until 4 o'clock tomorrow afternoon, Wednesday, May 6th.

In amendment thereto, Mr. McCulloch moved that the Committee adjourn until 10 o'clock the next morning, Wednesday, May 6th.

And the question being put on the said amendment, it was resolved in the affirmative on the following division: Yeas, 6; Nays, 4.

The motion as amended passed.

At 9.55 o'clock p.m., the Committee adjourned to meet again on Wednesday, May 6th., at 10.00 o'clock, a.m.

ANTOINE CHASSE,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, Room 277, May 5, 1942.

The Selected Standing Committee on Railways and Shipping met at 4 o'clock p.m. The Chairman, Mr. J. P. Howden, presided.

The CHAIRMAN: Gentlemen, when the committee rose last night it had just finished discussing a matter brought up by Mr. Shaw, and nothing further was proceeded with after that time. However, we did leave off proceedings a few days ago at page 20 of the Canadian National Railway system, and unless there is nothing else before the chair we will proceed from there.

Mr. JACKMAN: Mr. Chairman, I wanted to ask the president what the arrangement is between the two railroads where traffic originates on one part of the journey is made on the other line?

Mr. VAUGHAN: There are regular interchange arrangements between the railways at a great many points. They are all defined in the tariffs or by arrangement. I do not know—

Mr. JACKMAN: Very generally you could tell me. I suppose it has to do with the amount of mileage, but is it very much worth the while of one company to originate the traffic if most of it is carried on the other line? Is there an origination fee or a charge?

Mr. VAUGHAN: It is generally considered in railway business that the originating line is entitled to the long haul.

Mr. JACKMAN: Does that line only get that percentage of the total traffic charged which its rails bear to the total journey?

Mr. VAUGHAN: It is all done on a matter of division of charges which are agreed to beforehand. The originating line usually gets a larger proportion of the rate.

Mr. JACKMAN: I am just wondering what the percentage is, or can you state without filing the whole tariff what the percentage is?

Mr. VAUGHAN: I do not think I could say there is a definite percentage. It is a matter of agreement in each case. I think that Mr. Fraser could give you more details than I can.

Mr. FRASER: I think that is exactly correct. I do not think I could give you the figure.

Mr. JACKMAN: You mean between two points?

Mr. FRASER: Yes, depending where the junction point is and the length of mileage and the circumstances. Generally speaking, the railway originating the traffic takes the larger proportion of the division—generally speaking—but there is no fixed rule. I can give you something better on that later.

Mr. JACKMAN: I wonder if you can give an example. Let us say that a shipper in Vancouver ships via C.P.R. to Halifax. Now then, does the C.P.R. merely collect so much per mile to Montreal and then the C.N.R. gets the equivalent fee from Montreal per mile?

Mr. FRASER: I do not think it is necessarily on a mileage basis. They would get a certain proportion of the rate if it was transferred at Montreal. They might get the same proportion, that is mileage proportion, or a different one if it was interchanged at, say, St. Rosalie junction, and a different one if it was interchanged at North Bay. There are many junction points. I will give you an answer to this specific case.

Mr. JACKMAN: Is there a schedule between the two railways as to every junction point?

Mr. FRASER: Yes, that is right; but if you would like the specific case I will give you the actual division.

Mr. JACKMAN: I am more interested in the principle as to how valuable it is to one railway to originate the traffic.

Mr. FRASER: It is valuable.

The CHAIRMAN: If there are no further questions let us proceed to page 21 of the report.

Mr. NICHOLSON: Before you go on to page 21, there was an item which stood over from last week in connection with the protective service on page 15—a question which dealt with the cost of living bonus; I wonder if there is any statement on that?

Mr. WALTON: The situation in regard to the security guards is that at the time they were put on they were paid a rate of \$2.50 per day of eight hours. In the summer of 1941 that rate was increased to 40 cents an hour for an 8-hour day or \$3.20 a day. Following that the question came up as to whether those men were entitled to a cost of living bonus in view of the provisions of certain Orders in Council covering the application of the cost of living bonus. The matter was developed with the National War Labour Board which was the authority in such matters and the cost of living bonus had risen five points between the date of the increase in pay granted these men and February 15th, which is the specified date on which anyone who has not previously been granted the bonus and who qualifies for it will begin to receive the bonus. Each rise of one point in the cost of living being equivalent to 25 cents a week to the recipient it was ruled that a bonus of \$1.25 per week will be payable to these men. A formal application has been made to the National War Labour Board which undoubtedly in view of their opinion will be approved and once that approval is received these men will be paid the \$1.25 per week in addition to their rate of 40 cents an hour, retroactive to February 15, to cover the cost of living bonus. I think the question was asked last week as to whether those men worked seven days a week. They do. It would not cost the railway any more to work them for six days a week and to give them release for the seventh day because the man relieving would be paid the same amount of money, but it is a difficult matter to relieve them one day a week. In the great majority of cases they are at a rather inaccessible point where trains do not stop, and it was decided to work them the seven days a week, thinking that possibly they would lay off from time to time for a longer period, in which case relief could be arranged where it is a difficult matter to do it every week for one day a week.

Mr. HARRIS: Mr. Chairman, I would like to ask the witness where he gets the idea that he can express an opinion that the Regional Board or the National Labour Board will consent to this.

Mr. WALTON: They have intimated—

Mr. HARRIS: How can they intimate when you have not had a hearing.

Mr. WALTON: It has been carried on by correspondence with them.

Mr. HARRIS: Mr. Chairman, that is very irregular. I cannot just understand how the National War Labour Board could possibly intimate that such a thing was going to transpire, no hearing having been held. If that obtains with regard to the railways why should it not obtain with regard to all other industries. At the present moment, as the officials well know, the National War Labour Board and the Regional Board have agendas two or three weeks ahead of them and they are unable to keep up with the work. They are working nights and Sundays trying to catch up with their work on applications

such as the one spoken of here; and I would like to know how this witness is able to get this information.

Mr. WALTON: All I know is a submission was made to them, and that that information—

Mr. HARRIS: Signed by whom?

Mr. WALTON: By our Director of Labour Relations who handles such matters.

Mr. HARRIS: And who else? The employees?

Mr. WALTON: I do not know that they were a party to it. What we were applying for was clarification of the situation in view of the Orders in Council governing the application of the cost of living bonus.

Mr. HARRIS: That opinion is the opinion of the system—the Canadian National Railway system opinion.

Mr. WALTON: We expressed what was our understanding.

Mr. HARRIS: Quite.

Mr. WALTON: And it was intimated to us that our understanding was correct, but we are not actually putting it in effect until we receive the formal approval.

Mr. HARRIS: But you are agreeable to putting into effect this extra \$1.25?

Mr. WALTON: That is correct.

Mr. HARRIS: The first question under the section of the Act that has to do with the conduct of the National War Labour Board and the Regional Boards is that an application is made by a corporation of this kind and the first thing is to get the signatures of the employees concerned and to make it a joint application. In that case, of course, there is some hope for it going through; otherwise, you have those charged with the responsibility of holding down the cost of living, the Wartime Prices and Trade Board, having some say about the matter. Has that situation been canvassed?

Mr. WALTON: Not by us.

Mr. HARRIS: I understand, Mr. Chairman, from the witness that the employees concerned in this matter have not signed an application to the National War Labour Board or to the Regional Board; is that right?

Mr. WALTON: I believe so.

Mr. HARRIS: In this case only the Canadian National Railway system has made an application?

Mr. WALTON: As far as I know, yes.

Mr. HARRIS: Mr. Chairman, I am very anxious not to embarrass this particular situation, but it is within the possibility that this committee might ask that that correspondence be filed. I am not going to ask that it be filed for this reason that if it is filed then you can see immediately, Mr. Chairman, that all other industries across Canada, many of whom are waiting for the board to catch up with its decisions and many thousands of employees who are chafing at the bit and dissatisfied to-day in industry while they are waiting upon the National War Labour Board, will in like manner want intimations if they cannot get a hearing. You see the practice of indicating that an intimation came from the National War Labour Board is a very serious matter and something which should be given very serious consideration before it is said publicly that they have an intimation that such and so is going to happen when it concerns the operation of an Act which is trying to keep the cost of living down and which is trying to control wages and which is trying to give some standing to the National War Labour Board and some strength to these Regional Boards. Now, one of these Regional Boards will meet in Ottawa this week; probably it is here now;

and those people will be a little bit shocked when they get this evidence that an intimation has been given that such and so is going to transpire.

Mr. DONNELLY: Are the men themselves satisfied?

Mr. MAYBANK: If it was intimated, and in the question asked Mr. Walton he simply says what the facts are, I do not see what we can do about it. It is there in the evidence that the intimation has been received. I do not think there is anything wrong with Mr. Walton having come to that conclusion.

Mr. NICHOLSON: Mr. Chairman, you mentioned that the wage rate is 40 cents an hour. What is the rate paid for Sunday?

Mr. WALTON: The same rate.

Mr. NICHOLSON: What is your policy regarding Sunday wage rates on the system?

Mr. WALTON: In some cases higher than normal rates are paid and in others not.

Mr. MAYBANK: Large numbers of people on the railroads work any day at the same rate?

Mr. WALTON: Yes.

Mr. MAYBANK: Transportation men?

Mr. WALTON: Yes.

Mr. BRADETTE: There is a question I want to bring up, if I am in order at the present time. I have brought it up in previous years. It is in connection with these men on the spare board. There are thousands of them at the present time who are mostly employed, but that did not apply prior to the war. I know of some young men who were kept in that board from twelve to fifteen years and who were making an average, in some cases, of about \$30 a month, or \$360 a year. I readily understand the situation of the railway companies, the C.P.R. and the C.N.R., who try to have a pool of trained men at their beck and call at any time. It is only natural that they want to have a pool or reservoir of manpower. However, I maintained then and I maintain now that those men should get no less than a minimum wage of \$900 per year if they are to be kept on that waiting list. I readily understand that now those men are employed, because they are trained men. That applies more particularly to firemen and brakemen. I understand also that the labour organizations do not want to do anything about it. I believe it is in co-operation with the labour organizations that this started; but I maintain, for the sake of those young men, that they should not be kept at the beck and call of any organization for fifteen years or even for two years at these minimum wages. I am making that appeal again with all the sincerity that I possess, because I know many men have lost heart. I have seen some of them break down and cry in my office, saying, "What am I going to do?" There is more than that to it. If these young men, after waiting on that list for three or four years, go back to some other occupation such as insurance, then they lose any seniority they may have had. I know of cases in my own home town. There was a fine returned man who went into the insurance business. Now that the C.N.R. is badly in need of these trained men, he can get on again, but he has lost his seniority. I believe these are injustices that the management should properly look after. It is not a reflection on any of the railway companies. They all work on that principle. But I believe it is the wrong principle at the present time.

Mr. VAUGHAN: If the railways have work, they are glad to give it to the men. But if they have not got work, they cannot give it.

Mr. BRADETTE: You have that pool at your disposal. It is very beneficial to the railway companies.

Mr. VAUGHAN: That is done by consent and by arrangement with the organization.

Mr. BRADETTE: I know all that, but I still maintain that it is very unfair to these young men. These big railway corporations have a potential of trained men, men who hope eventually to be permanent, who wait for many years on not even starvation wages, not making enough to keep body and soul together. When the railway company calls any of these men, they have to answer the call or they are out of it. There is an absolute injustice on that score. I believe the only remedy to it would be to give a minimum wage of \$75 a month, I mean exclusive of what they may actually earn from actual work on the railway. That is my contention on that score.

Mr. VAUGHAN: That is something that the railways could not possibly afford.

Mr. BRADETTE: Well, the railways could take the load because they are getting that manpower for the benefit of the railway system or the service.

Mr. VAUGHAN: That is an unfortunate condition of employment brought about, of course, by the depressed conditions and the lack of work for those men.

Mr. BRADETTE: I know that.

Mr. VAUGHAN: The fluctuation of business.

Mr. BRADETTE: I fully realize that. That is all the more reason that these men should have a certain amount of protection. We talk now of bonusing the men with a cost of living bonus. That certainly never applied to these fine young men that were kept there idle most of the time for a number of years—not months, but years.

Mr. VAUGHAN: No one regrets that more than we do, but I cannot see any possibility of correcting it.

Mr. BRADETTE: There is a possibility if we forget the financial factor and think only of the human factor that is involved. There is no corporation, private or governmental, which could ever expect to have a large number of men, some partially and some of them very well trained men, to be at the beck and call of these big corporations at the time they want them, and these men can properly say they should not be. I maintain it is absolutely wrong principle.

Mr. VAUGHAN: It is a difficult situation, but it is one we cannot do anything about.

Mr. BRADETTE: Oh, I would not say that. If the company would just give its ears to the thousands of these men, it would certainly find a solution of the problem. It might cost some money to the railway systems, but I believe it would be money well spent. Can you visualize the federal government or the civil service maintaining the same kind of pool, or any other organization? They do not do it in lumber corporations. They do not do it in steel corporations.

Mr. VAUGHAN: Of course, these men work 100 per cent of their time. Our men do not. They work when there is work for them to do.

Mr. BRADETTE: I know. But take a man that is a permanent man. He gets the minimum mileage every month and gets his minimum pay. That man makes a decent living; that is, a man that is permanent makes a decent living, but not a man on the spare board. He is left in the lurch.

Mr. VAUGHAN: These matters have been discussed many times with the labour organization and we believe the best arrangement that could be made is in existence now. The railway could not possibly afford to pay a minimum wage to these men such as you suggest, or we would be worse off than we are now; and I am sure none of you gentlemen want that.

Mr. BRADETTE: You would be worse off financially, you mean?

Mr. VAUGHAN: Yes.

Mr. BRADETTE: Would the service be worse off?

Mr. VAUGHAN: It would not be any better off.

Mr. BRADETTE: It would not be any worse off. It would be better on that score. You have some men who are not satisfied and who cannot be satisfied. That is the only way that any new railway man can graduate into the trained man's class. There is no other way now.

Mr. VAUGHAN: It is a matter of regret to us that we have no work to give them; but if we have not got the work, we cannot do it.

Mr. BRADETTE: I do not mean lack of work. There is a big principle here. If the railway corporations can do it, they should take hold of this. It is most unfair to these young men to expect them to sacrifice the best years of their life without proper remuneration.

Mr. LOCKHART: Mr. Chairman, there are many branches of seasonal employment throughout the country where that applies more or less.

The CHAIRMAN: Really, I believe it is the railway train organization that makes it difficult for these pools.

Mr. EMMERSON: Mr. Chairman, is it not a fact that sometimes these men on the spare board are given leave of absence?

Mr. VAUGHAN: Oh, yes.

Mr. EMMERSON: To take other employment?

Mr. VAUGHAN: Quite so.

Mr. EMMERSON: And still maintain their position on the seniority list?

Mr. VAUGHAN: And still maintain their position on the seniority list, and their pension rights and things of that kind.

Mr. BRADETTE: You can get tickets of leave for a year; but no more than a year, though.

Mr. WALTON: A good deal of consideration is given along that line to try and give them an opportunity to get seasonal work elsewhere when we can possibly spare them.

Mr. EMMERSON: Or give them work on the railway in other crafts?

Mr. WALTON: Yes. There is some of that too. In many cases where a man has some other employment, he has said to us, "Now, I am working for the time being. If you can get along without me, all right; I should like to continue where I am." He has been granted an extension of leave in order to try and bridge this gap. Mutually satisfactory arrangements of that kind have been made in scores of case just to help the proposition out.

Mr. BRADETTE: I appreciate the situation of the railway companies. They must have a certain amount of men to run their trains and their services. But I know of some instances where a married man would make about \$300 a year. The thing was absolutely impossible. If they were too long away from the railway system, they were out of it. There should be a remedy. Even it cost a bit of money to the railway companies, it should be overcome. I do not know what would be the proper way to do it.

Mr. VAUGHAN: I do not see how we could adopt the principle of paying men when they are not working any more than any other industry in the country could.

Mr. BRADETTE: They would have to work. They do work a certain amount during the year. Suppose we made a minimum of \$600 a year. Would that be a big discrepancy?

Mr. VAUGHAN: It would cost us money which we could not possibly afford and would be a consideration given to them that men in no other industry receive.

Mr. BRADETTE: Of course, you do not get any other industry like yours with a big reservoir of men that are at your beck and call any time you want them. You do not get that in any other industry but the railway companies.

Mr. VAUGHAN: I do not think there is any industry that deals more generously with its men than the railways do.

Mr. BRADETTE: The men that are permanent. I grant you that. But not the class of men I have just mentioned.

Mr. NICHOLSON: Along the same line, I have had some correspondence in connection with a man who was qualified and had been appointed as brakeman. He qualified during the depression years. But he was too young when he was first qualified to work. He is now too old, apparently. What are your regulations regarding age limits for taking men and are any adjustments being made to engage older men?

Mr. WALTON: Yes. We have eased those regulations some in the last year, in view of the labour demand and the available supply.

Mr. NICHOLSON: How old do you have to be to qualify for a brakeman, for example?

Mr. WALTON: Well, ordinarily we would rather not engage a man in train service over thirty-five, but we have in recent months been prepared to ease that somewhat, if his physical condition is satisfactory for the kind of work he is going to be engaged on.

Mr. NICHOLSON: That is the maximum age. What is the minimum age that has been in effect?

Mr. WALTON: Twenty-one.

Mr. EMMERSON: May I ask, Mr. Walton, is that a system policy or a regional policy? I am speaking of the age limit.

Mr. WALTON: It is really a system policy, although I would not say that it has been absolutely adhered to, to the letter.

Mr. MAYBANK: You were telling us about the bonus problem with relation to the protective services. Have you any other difficulties before you at the moment with any types of labour relative to the bonus or are they all settled up.

Mr. WALTON: No. I think everything is settled up and the bonus in full effect for all branches of service where it is applicable.

Mr. MAYBANK: I met a man in the halls who was dominion chairman of the brotherhood organization. While we spoke for only a few minutes, I could see from the way he spoke that he had a grievance in his mind with reference to the bonus.

Mr. WALTON: Oh, yes.

Mr. MAYBANK: That man was chairman of the C.P.R. lines rather than the C.N., but they have moved along together.

Mr. WALTON: Yes, they have moved along parallel lines. I should have said this, that while the bonus is in effect for all branches of the service, there is a submission going forward—in fact, I think it has been given, in the last two or three days, to the National War Labour Board—in regard to the method of application in certain cases in the running trades, in instances where there is partial absence from duty during the month. It is related to the question of mileage rather than hours. It really needs some clarification by the War Labour Board. The brotherhoods have made their submission and the railroads, acting jointly, have made their submission. It is really in regard to certain points of the application of the order. In the meantime payment is being made on what we understand to be the basis. If it is ruled that we are incorrect in certain of these cases, corrective steps will be taken. But it will only be a small number of cases out of the total that will be affected by such ruling as might be handed down.

Mr. MAYBANK: I gathered from his language that this man was pretty mad. He was talking railroad talk.

Mr. WALTON: Well, the great majority of the men are getting the full bonus, but it is in respect to a certain number of days absent per month and the mileage involved that causes this present clarification to be called for.

Mr. MAYBANK: Would it be something like this? Take a brakeman, for example, who works two-thirds of the month and he is unable to work the other third; that is, by seniority he is unable to work the other third. He would only get two-thirds of the bonus?

Mr. WALTON: That is one of the questions. There are one or two others.

Mr. MAYBANK: Then, on the other side, is the question of the living bonus—he has to live the one-third—and whether he ought to get it.

Mr. WALTON: Also certain cases where a number of days are lost in the month, the mileage made in proportion to the total month's mileage varies and the proportion of the days worked varies to the days in the month. It is a little lengthy to cover in detail here, but it is purely a matter of asking the War Labour Board what these Orders in Council mean, and we will be governed accordingly.

Mr. MAYBANK: Is it just purely that? Are you just taking a neutral position?

Mr. WALTON: No. We have made a submission as to what we think is the proper understanding and the men have done the same, and the National War Labour Board is the arbitrator in the case.

Mr. MAYBANK: And you are not in agreement?

Mr. WALTON: Not on those points. In the general application of the bonus, yes, but not on those particular, what might be called more remote points.

Mr. MAYBANK: Is there much money involved?

Mr. WALTON: No, very little, I think, in total.

Mr. MAYBANK: Does it cover all parts of Canada?

Mr. WALTON: Yes; it would be applicable country-wide, whatever decision is handed down.

Mr. MAYBANK: And chiefly in the transportation section, the running trades.

Mr. WALTON: It is entirely the running trades that are involved because of their varying conditions of work as related to mileage and so on.

Mr. MAYBANK: Then there is no other fixed problem, I understand, that you have?

Mr. WALTON: No.

Mr. MAYBANK: Excepting as it applies to the protective service and the running trades.

Mr. WALTON: That is right.

Mr. MAYBANK: Each in a different way?

Mr. WALTON: That is right.

Mr. MAYBANK: And have you any intimation as to when you would get judgment on this last mentioned matter?

Mr. WALTON: No; we are waiting to hear.

Mr. MAYBANK: Has it been before the National War Labour Board for a long time?

Mr. WALTON: No; it was completed, as I recall it, just at the end of last week, possibly the middle of last week, and went forward to the board then.

Mr. MAYBANK: Did it get the right-of-way over other matters or will it take a long time?

Mr. WALTON: I do not know.

Mr. MAYBANK: Have you any idea?

Mr. WALTON: I have no idea.

Mr. MAYBANK: That is all I had to ask.

Mr. ARMSTRONG:

The CHAIRMAN: Page 21.

INVESTMENTS IN AFFILIATED COMPANIES

Stocks:	Company	Amount Outstanding	Amount Owned by		Book Value
			Can.	Nat. System	
	Atlantic and St. Lawrence Railroad Company	\$ 5,480,700.00	\$	12,524.33	\$ 9,168.13
	The Belt Railway Company of Chicago.....	3,120,000.00		240,000.00	240,000.00
	Canadian Government Merchant Marine, Limited	800.00		800.00	800.00
	Central Vermont Transportation Company..	200,000.00		50,000.00	20,000.00
	Chicago & Western Indiana Railroad Com- pany	5,000,000.00		1,000,000.00	1,000,000.00
	The Detroit & Toledo Shore Line Railroad Company	3,000,000.00		1,500,000.00	1,887,000.00
	Detroit Terminal Railroad Company	2,000,000.00		1,000,000.00	1,000,000.00
	Northern Alberta Railways Company.....	625,000.00		312,500.00	312,500.00
	The Ontario Car Ferry Company (Limited)	500,000.00		250,000.00	179,007.53
	The Public Markets, Limited	1,150,000.00		575,000.00	575,000.00
	Railway Express Agency, Incorporated (no par value)	1,000 shares		6 shares	600.00
	The Toronto Terminals Railway Company..	500,000.00		250,000.00	250,000.00
	The Toledo Terminal Railroad Company..	4,000,000.00		387,200.00	387,200.00
	Trans-Canada Air Lines	3,750,000.00		3,750,000.00	3,750,000.00
	Vancouver Hotel Company Limited.....	150,000.00		75,000.00	75,000.00
					<u>\$ 9,686,275.66</u>
Bonds:					
	Atlantic and St. Lawrence Railroad Com- pany	\$ 3,000,000.00	\$	3,000,000.00	\$ 3,012,040.00
	Northern Alberta Railways Co. 1st. Mortgage Bonds	20,300,000.00		10,150,000.00	10,150,000.00
	The Toronto Terminals Railway Co. 1st Mortgage Bonds	25,610,000.00		12,805,000.00	12,805,000.00
					<u>\$25,967,440.00</u>
Advances:					
	Chicago & Western Indiana Railroad Company.....				\$ 1,734,340.18
	The Railroad Credit Corporation.....				157,579.96
	Railway Express Agency, Incorporated				107,026.82
					<u>\$ 1,998,946.96</u>
					<u>\$37,652,262.62</u>

MAJOR CONTINGENT LIABILITIES

Trans-Canada Air Lines:

The Canadian National Railway Company owns \$5,000,000 of the Capital Stock of the Air Lines on which total call to 31st December, 1941, has been \$3,750,000.

Northern Alberta Railways Company:

The Canadian National Railway Company owns \$3,125,000 of the Capital Stock of the Railways Company on which total call to date has been 10%.

Under agreement of purchase dated 6th February, 1929, Canadian National Railway Company became liable for one-half of the purchase consideration for the property. This obligation was later assumed by Northern Alberta Railways Company which took title to the property. As of 31st December, 1941, the commitment of the Canadian National Railway Company was \$4,710,000 of which \$3,500,000 has since been discharged. The Canadian National Railway Company takes up currently in its income account one-half of the annual deficit of Northern Alberta Railways Company.

The Detroit & Toledo Shore Line Railroad Company:

Assumed by Grand Trunk Railroad Company as joint and several guarantor by indorsement of principal and interest of \$3,000,000 First Mortgage 4%—50 Year Gold Bonds due 1953.

The Toledo Terminal Railroad Company:

Assumed by Grand Trunk Western Railroad Company in respect of \$5,800,000 First Mortgage 4½%—50 Year Gold Bonds due 1957. The guarantee is as to interest only and is several and not joint. Grand Trunk Western's proportion is 9.68%.

Chicago & Western Indiana Railroad Company:

Assumed by Grand Trunk Western Railroad Company, pursuant to joint supplemental lease dated 1st July, 1902, between Grand Trunk Western Railway Company and four other proprietary companies. Obligation is for repayment of principal of bonds at their maturity, and of interest as it falls due by way of annual rentals. The Grand Trunk Western's obligation is for one-fifth of the bonds issued for "common" property and the entire amount of bonds for its "exclusive" property. The Bonds are Consolidated Mortgage 50 Year 4% bonds due 1952 and the amounts outstanding at 31st December, 1941, are:—

Issued for "common" property	\$39,973,019.39
Issued for "exclusive" property	252,535.36

Assumed by Grand Trunk Western Railroad Company pursuant to joint supplemental lease dated 1st March, 1936, between Grand Trunk Western Railroad Company and other proprietary companies. Obligation is to pay as rental sinking fund payments sufficient to retire bonds at maturity and interest as it falls due. The Grand Trunk Western's proportion is one-fifth in the absence of default of any of four other tenant companies. The bonds are First and Refunding Mortgage 4½% Series "D" Sinking Fund Bonds due 1962 and the amount outstanding at 31st December, 1941, is \$20,472,000.

C.N.R. Pension Plans:

Reserves are not set up against pensions presently being paid or conditionally accruing under the 1935 contractual plan and prior non-contractual plans. Actual pension payments made at the expense of the Railway are charged currently to operating expenses.

Pension contracts in force under the 1935 contractual plan number 4,428, the average annual pension is \$481, the total annual pensions being \$2,130,600 representing a capital sum of approximately \$18,000,000. The portion of this sum contributed by retired employees is carried in the accounts as a deferred liability against which funds have been separately invested.

Mr. HARRIS: Before you reach that, Mr. Chairman, will there be filed a statement in the case of those companies that are wholly owned by the two railway companies? For example, the Toronto Terminal Railway Company is owned and operated jointly by the Canadian Pacific and the Canadian National Railways. We should have some sort of a statement, Mr. Chairman, of their affairs.

Mr. VAUGHAN: I do not think they publish an annual statement, Mr. Harris. The two railways really just pay them sufficient rental to enable them to break even.

Mr. HARRIS: Is there any way, Mr. Chairman, of finding out about their operations? Failing that I would put a specific question.

Mr. VAUGHAN: We certainly can get you some information with regard to the operations.

Mr. HARRIS: I think perhaps the President recalls that when this company was first formed the idea of forming it was to facilitate the movement through Toronto and facilitate the construction of the viaduct and getting that railway situation into some sort of order out of the chaos that obtained previously, among other things the industrial area to the south. I think evidence will show that it was necessary for the Toronto Terminals to have an agreement with the Toronto Harbour Commissioners and that was revised again. First the Canadian National Railways years ago did all the work there. Now both railways are doing it. Would the President care to have a statement submitted as to who is conducting that work now in the city of Toronto, who is responsible for it?

Mr. VAUGHAN: There is a manager of the Toronto Terminals who conducts all that work. He has charge of the Terminal property which comprises the joint company; that is, the company that is owned jointly by both railways.

Mr. HARRIS: Have you any statement of their transaction?

Mr. VAUGHAN: We will get a statement; we can file an income statement of the company with you.

Mr. HARRIS: Would that statement show what assets they own?

Mr. VAUGHAN: Yes, it will.

Mr. HARRIS: And the property over which they have jurisdiction?

Mr. VAUGHAN: I do not think the statement would show or give that information; but we can certainly have a statement filed containing any information you want in that connection.

Mr. HARRIS: That does not seem to be very definite, Mr. Chairman, or rather there does not seem to be any definite understanding as to who is who with regard to the Toronto Terminal Railway, and it is very difficult to find out who is operating it or what their plans are. My view, Mr. Chairman, is that as a member from the Toronto area, inasmuch as this is a government-owned Corporation, that we have the right to know what the policy is with regard to the operation of the Toronto Terminals Railway.

The CHAIRMAN: Is the Toronto Terminals Railway a government-owned proposition or—

Mr. HARRIS: No, it is jointly owned by the Canadian National and the Canadian Pacific railways. I would rather you asked that question of the president; I am not a witness.

The CHAIRMAN: We have the same condition in Winnipeg. I do not know how far our jurisdiction would go in demanding a statement, that is all.

Mr. VAUGHAN: We will be glad to file a statement showing the arrangement in effect between the two railways, and just what work each railway does and the territory covered in the terminal.

The CHAIRMAN: Would you desire to have that statement filed?

Mr. HARRIS: I should like to have that, Mr. Chairman. I should like to have that for a period of, say two years, a comparative statement for two years back. There have been changes going on which those of us in this committee should know something of and we do not. We have a responsibility to discharge. We did not get a statement last year.

The CHAIRMAN: As a member of the committee you could certainly ask for it and no doubt we will endeavour to get it.

Mr. VAUGHAN: There is no reason whatever why such a statement should not be filed.

Mr. HARRIS: With your indulgence, sir, I should like to have it for two years.

The CHAIRMAN: All right, that will be handed in.

Mr. JACKMAN: I notice the accounts are entitled, "Consolidated Account," and in relation to these investments in affiliated companies, do you take into your consolidated income account or surpluses any profit or loss which might have obtained in respect to any of those affiliated companies?

Mr. COOPER: I would say yes in every case except the Trans-Canada Airways, which is separately reported.

Mr. JACKMAN: And the profit last year on the Trans-Canada was not transferred to the parent company?

Mr. COOPER: No.

Mr. JACKMAN: But in respect of all the rest of those affiliated companies, even though you have less than 50 per cent ownership in them, you do take in the profit or loss in respect of each individual company or a share of it represented by your ownership, into your consolidated operating statement?

Mr. COOPER: Well, no, I would not say that. If these companies are operating at a profit and they distribute their profits to the shareholders we would get our share proportionate to the amount of stock held. That would be taken into our income account.

Mr. JACKMAN: Do these affiliated companies operate at a profit or at a loss? You might have a hidden profit or you might have a hidden loss if you did not incorporate it—

Mr. COOPER: You would have to take them one by one, Mr. Jackman.

Mr. JACKMAN: Generally speaking, can you give me an expression of opinion or are they mostly service companies operating without profit or loss?

Mr. COOPER: The Belt Railway Company is a profit company. We take in whatever dividend that company distributes during the year.

Mr. JACKMAN: Of course, we have to go back one step further than that. I might earn a lot of money and not declare a dividend. I am more interested in the real earnings of the companies than in the dividends declared.

Mr. COOPER: No; the Belt Railway Company must declare dividends to its proprietary tenants if it has sufficient net earnings. In fact it has sufficient net earnings because the terms of the working agreement are such that the tenants must pay as rent a sufficient amount to meet all the working expenses and pay six per cent on the capital to the proprietors.

Mr. JACKMAN: This dividend is distributed, then, more or less mandatorily?

Mr. COOPER: Yes.

Mr. JACKMAN: I think you know what I am aiming at in connection with—

Mr. COOPER: I think I can answer it this way, Mr. Jackman: there are no losses in those controlled or affiliated companies which are not being adequately protected in the income account of the Canadian National Railways. We are not piling up through these outside investments losses which are not fully protected in the income account of the consolidated system.

Mr. JACKMAN: Are there not undisclosed surpluses that you might have taken into earnings apart from these \$300,000, which is rightfully yours, but at the present time in the coffers of the Trans-Canada? It is your money, you know, the whole thing.

Mr. COOPER: In the case of Trans-Canada, of course, the Canadian National Railways owns the entire capital stock, \$3,750,000. The arrangement there is that Trans-Canada pays five per cent interest to the Canadian National Railways on the stock held by the Canadian National Railways.

Mr. JACKMAN: You do get five per cent on that?

Mr. COOPER: We get five per cent. The \$300,000 surplus of the Trans-Canada is after paying all interest, and the surplus of \$300,000 is retained by the Trans-Canada and does not come back to the Canadian National Railways.

Mr. JACKMAN: So in other words, the Trans-Canada pays the C.N.R. \$187,500 interest, which was five per cent on the capital, and then earned \$300,000?

Mr. COOPER: That is right.

Mr. HARRIS: And received a subsidy from the Post Office Department.

Mr. JACKMAN: That interest has been paid right along by Trans-Canada?

Mr. COOPER: Yes; it is required to do so under the terms of the Trans-Canada Act.

Mr. JACKMAN: In connection with any of those other investments in affiliated companies there is no very large account that has not been distributed?

Mr. COOPER: No.

Mr. JACKMAN: What principle generally do you apply as to whether you will consolidate the earnings of a subsidiary company in the statement of the C.N.R. system?

Mr. COOPER: If we own more than 50 per cent; that is to say, if we fully control the operations of a subsidiary then it is included in the consolidated statement.

Mr. JACKMAN: Whatever proportion of the stock is owned by the C.N.R., that proportion of the losses or profits is incorporated in the C.N.R. statement as a consolidation?

Mr. COOPER: No, I would not say that. If we have a majority interest in a deficit company the conservative method would be to protect the complete

deficit, because there would be no possibility of asking the minority shareholders to contribute their share of the deficit.

The CHAIRMAN: Let us go on to page 22.

Mr. HAZEN: What is the Railroad Credit Corporation referred to here on page 21?

Mr. COOPER: It is a company which was organized in the United States under the direction of the Inter-State Commerce Commission. The Commission gave certain freight increases, I think around the year 1930, and all the railways were expected to pay in to the corporation the revenues accruing to them by reason of such freight increases, and out of the pool which was thus created advances were made to the weaker lines. It was a case of the strong roads being called upon to help tide over the weaker roads for a temporary period. The advances were made in that way; and they are being repaid as the weaker lines find themselves in a position to make the repayments. A very substantial portion, I would estimate something like 80 per cent, of the amounts which our United States subsidiaries advanced to the Railway Credit Corporation have been repaid to us.

Mr. JACKMAN: I am still not clear as to why you should incorporate the full loss of the subsidiary in which you own the majority of the stock; because, when the company makes a profit you certainly cannot incorporate all of the profit, some of it belongs to the minority shareholders.

The CHAIRMAN: Page 22.

Mr. JACKMAN: Just a moment, there is a question before the committee.

Mr. COOPER: I will put it this way, Mr. Jackman: if we owned 90 per cent of the corporation and it was operating in conjunction with our system and that corporation failed to pay its operating expenses and its fixed charges we, as the parent corporation, the controlling corporation, the majority stockholder, would have to advance the deficit. Now, that advance would not be a sound asset to carry, I submit; unless you have very substantial grounds for believing that the next year, or in the immediate future, the situation might change and the subsidiary be in a position to repay these advances. I submit the sound method of accounting would require us to absorb the entire advance and show an income loss on that subsidiary in our accounts rather than to carry it forward as a collectible asset.

Mr. JACKMAN: Suppose a grain elevator company operated at a loss—as in a case like the one mentioned yesterday by Mr. Donnelly—and then for some reason it starts off making a lot of money; you cannot get any more than your share out of it and what claim have you on that particular subsidiary to repay to you the deficit advances which you made to them which you have charged against the operating results of some previous year and have no record on the asset side of your books because you see it is not a valid asset.

Mr. COOPER: I do not like discussing hypothetical cases, but I can refer you to an actual case, that is the Montreal and Southern Counties Railway. That is a railway operated just south of Montreal. We do not own all of the stock of that company. The total stock is \$500,000, of which \$189,000 is not owned by the Canadian National Railways, but the company is operated under the direction of the Canadian National management. It does not pay its way. The Canadian National year after year advances the Montreal and Southern Counties Railway whatever sum is needed to break even.

Mr. JACKMAN: Don't you get back some evidence of the indebtedness?

Mr. COOPER: We protect ourselves against the minority shareholders by making the Montreal and Southern Counties give us a note. But we consider these advances, these advances for deficits, should not be allowed to accumulate and be carried as an asset in the balance sheet of the National Railways.

Mr. JACKMAN: Probably they could be carried at a dollar a year. There must be some accounting record of it.

Mr. COOPER: We certainly have a record of it, but that does not get away from the point we were discussing, as to whether it is proper or not that the National Railways should absorb the whole deficit currently in its accounts, notwithstanding the fact that it does not completely own that subsidiary.

Mr. JACKMAN: That is very pleasant for the minority shareholders. I do not know that the Canadian National has any alternative in the matter.

Mr. COOPER: You should go and ask these minority shareholders to pay up their share of the annual deficit and there would be a good deal—

Mr. JACKMAN: Why don't you allow the property to go into bankruptcy and acquire ownership of it?

Mr. COOPER: Well, there is something in that.

Mr. JACKMAN: Where on the balance sheet have you got this statement of the audit representing this?

Mr. COOPER: We have complete records in our accounts. The accounting system of the Canadian National Railways is not any hit or miss system, I can assure you of that. The consolidated balance sheet of the National Railways comprises some one hundred companies. They all have separate accounts and balance sheets and there are innumerable inter-company transactions; but in the final consolidated statement of the system for the year we wash out all these inter-system items, whether it is for one dollar or whether it is for more.

Mr. JACKMAN: But you still have them in the accounts some place?

Mr. COOPER: We certainly have them, not only in our books—I can put it this way, let us say the amount owing by the Montreal and Southern Counties Railway is \$100,000; the balance sheet of the Canadian National Railway Company shows an advance to the Montreal and Southern Counties Railway of \$100,000; the balance sheet of the Montreal Southern Counties shows that it owes the Canadian National Railways \$100,000. We put the balance sheets together in our consolidated statement and we offset the assets against the liabilities. But because we do that for consolidated balance sheet purposes there cannot be any thought of losing track of the \$100,000.

Mr. JACKMAN: That is a washout?

Mr. COOPER: Certainly.

Mr. JACKMAN: I think, and I think you agree with me, that the railway company where you have a persistent deficit occurring in an affiliated company should get rid of its minority stockholders.

Mr. COOPER: Personally I agree with you, Mr. Jackman, but it is a personal opinion. However, there may be a matter of company policy with which I am not familiar. I do not know why we did not put the Montreal and Southern Counties Railway Company through some reorganization and wipe out the minority shareholders.

Mr. JACKMAN: I wonder if the president (Mr. Vaughan) would care to express an opinion on that?

Mr. VAUGHAN: That is a very vexatious question with us. There are some benefits coming to the parent company through the operation of that line. That question has not come up during my regime as president, that is the question of putting the road through a receivership. I do not think this would be the time to do it; but I may say that our department of research and development is working on that now with a view to ascertaining what is the best thing to do with it. That matter is now under consideration but as to what we may decide to do I cannot say.

Mr. JACKMAN: I think your co-director, Mr. Symington, would share my views.

The CHAIRMAN: Gentlemen, I would like to suggest to the committee that we have been using a lot of time in this discussion between Mr. Jackman and the Comptroller of the Canadian National Railways. Subject matters of this kind, and these accounts, are I believe definitely set by law. I do not think we can get anywhere with this discussion at all and I would like to see the committee proceed.

Mr. HARRIS: I think, with all due respect to your opinion, there is no law or no statute on the point which would permit the washing out the one item on one balance sheet where they controlled the stock, most of the items, in their own consolidated balance sheet. I was going to ask a question, and I think I am in order; what happens in the case recited in the case of betterments to this railway, would they enure to the benefit of the majority shareholders?

Mr. VAUGHAN: Improvement of property would be for their benefit as well as ours. I do not know how many cases we have—

Mr. HARRIS: All right, on that point—if I might interrupt the president, Mr. Chairman—I would like to ask him in the matter of improvement to the property, that is a cost against the operation of that particular line, that cost would be reflected in their balance sheet and would add in of course to the deficit. That deficit in turn is being assumed by the Canadian National Railways who are the majority owners; and then these benefits find their way around to the benefit of the minority shareholders, which is in my opinion fair neither to the Canadian National Railways nor any such company.

Mr. COOPER: In most of these cases it will be found that the minority ownership is very small, almost negligible in many cases. And as there are no dividends being paid in any of these cases no outsider benefits.

Mr. JACKMAN: In the example cited, the 29 per cent minority ownership in that line which Mr. Cooper gave us and also in regard to the T.C.A. which had a deficit before it began to show earnings—

Mr. COOPER: In the initial stages, what was called the initial period, the Trans-Canada had a deficit, which was provided for in the estimates passed by parliament.

Mr. JACKMAN: What was the accounting procedure in connection with that deficit as regards the consolidated income account of the Canadian National?

Mr. COOPER: I said at the beginning, Mr. Jackman, that with respect to Trans-Canada it is kept separate from the railway system accounts; that is, separate except with respect to the interest return on the investment. In other words, there is a statement of the accounts of the railway system and there is a statement of the accounts of Trans-Canada. They are separate and distinct.

Mr. JACKMAN: Yes, but is not the capital put in the Canadian National account under consolidated return; and while I do not object too much to taking the whole deficit where there is a loss into the Canadian National system—rather, I do not object to not taking in the earnings, as was done with the Trans-Canada Air Lines—I think we should object in not taking up at least your share of the deficit where you are 100 per cent the owner. You should take up the deficit there, although, as you have pointed out, you have already admitted that the T.C.A. accounts are kept separately and are not consolidated. But if there were any other situation where there was a deficit and you did not take up at least your proportion I think the committee should be made aware of it. Is there any such situation where you have a deficit and do not take up your appropriate share?

Mr. COOPER: No. Of course there is no deficit on the Trans-Canada to-day.

Mr. JACKMAN: You really should have taken in the surplus in your consolidated statement.

Mr. COOPER: No, sir. The accounting for Trans-Canada is controlled by the Trans-Canada Act and the contract with the Post Office Department. The return to the Canadian National is the interest return on the amount of the capital invested, and that interest return has been received. That is the end of it. Any surplus after interest will remain with Trans-Canada and will not be transferred to the Canadian National Railways. I think we are limited by the terms of the Act; at any rate, for a period of ten years; to 5 per cent on the amount of capital we have invested in that company.

Mr. JACKMAN: In other words, the Canadian National Railways was set up as a fairy-godfather to the T.C.A. and could not benefit to the extent of more than 5 per cent and must take all the losses, if there are losses?

Mr. COOPER: I have not said that at all. We have not taken any loss for the Trans-Canada.

Mr. JACKMAN: No, but that is because the company is now holding favourable contracts with other government departments and making a surplus; but if it had not been for the success which it is now attaining, the T.C.A. might have had a series of deficits and you would have had to shoulder those, possibly having the rest of the stock called up; but you would not have been able to earn more than 5 per cent on it, at any rate, during that period.

Mr. COOPER: I do not want to continue the discussion, but I do not agree with you, Mr. Jackman. We certainly would not issue capital stock to meet operating deficits.

Mr. JACKMAN: They had the right to call on you to pay up a million and a quarter. That is automatic with them if they wish to exercise it.

Mr. COOPER: If Trans-Canada had a deficit the terms of the arrangement are that the mail rate should be increased.

The CHAIRMAN: Page 22.

Mr. ARMSTRONG: Page 22 is a schedule of companies comprising the Canadian National Railway system.

SCHEDULE OF COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM

CAPITAL STOCKS OWNED BY DOMINION GOVERNMENT			
Company Number			
1	Canadian National Railway Company.....	\$ 18,000,000 00	
2	The Canadian National Railways Securities Trust.....	267,283,019 32	
		<hr/>	
		\$285,283,019 32	

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC				
	Name of Issuing Company	Owned by Company Number	Capital Stock Issued	Owned by Public
3	The Bay of Quinté Railway Company.	23	\$ 1,395,000 00	\$
4	The Bessemer and Barry's Bay Railway Company	23	125,000 00	
5	*Brooksby Realty Company.....	28	2,000 00	
6	*Canada Atlantic Transit Company.....	1	219,000 00	
7	*Canada Atlantic Transit Company of United States	1	250,000 00	
8	The Canadian Express Company.....	1	1,768,800 00	
9	*Canadian National Electric Railways..	23	1,750,000 00	
10	Canadian National Express Company..	24	1,000,000 00	
11	Canadian National Land Settlement Association	1	—	
12	*Canadian National Railways (France)	1	2,007,400 00	
13	*Canadian National Realities, Limited..	23	40,000 00	
14	Canadian National Rolling Stock Ltd.	1	50,000 00	

SCHEDULE OF COMPANIES COMPRISING THE CANADIAN NATIONAL
RAILWAY SYSTEM—*Continued*

	Name of Issuing Company	Owned by Company Number	Capital Stock Issued	Owned by Public
15	*Canadian National Steamship Company, Ltd.	49	15,000 00	
16	Canadian National Telegraph Company	23	500,000 00	
17	*Canadian National Transportation, Ltd.	1	500 00	
18	The Canadian Northern Alberta Rail- way Company	23	3,000,000 00	
20	The Canadian Northern Ontario Rail- way Company	23	10,000,000 00	
21	Canadian Northern Pacific Railway Company	23	25,000,000 00	
22	The Canadian Northern Quebec Rail- way Company	23	9,550,000 00	3,849,200 00
23	The Canadian Northern Railway Com- pany	1	18,000,000 00	
24	The Canadian Northern Railway Express Company, Ltd.	23	1,000,000 00	
25	Canadian Northern Steamships, Ltd. ..	23	2,000,000 00	
26	Canadian Northern System Terminals Ltd.	23	2,000,000 00	
27	Canadian Northern Western Railway Company	23	2,000,000 00	
28	*The Centmont Corporation.....	31	176,400 00	
29	The Central Ontario Railway.....	23	3,331,000 00	
30	Central Vermont Airways, Inc.	28	5,000 00	
31	Central Vermont Railway, Inc.	1	10,000,000 00	
32	Central Vermont Terminal, Inc.	31	5,000 00	
33	*Central Vermont Transit Corporation..	28	5,000 00	
34	*Central Vermont Warehouse, Inc.	28	5,000 00	
35	The Champlain and St. Lawrence Rail- road Company	1	50,000 00	
36	*Chicago, New York and Boston Refrig- erator Company	52	1,129,400 00	
37	Cincinnati, Saginaw and Mackinaw Rail Road Company	1	1,500,000 00	
38	*Consolidated Land Corporation.....	52	64,000 00	
39	*Continental Realty & Holding Company	13	90,000 00	
40	*The Dalhousie Navigation Company, Ltd.	23	50,000 00	
41	*Duluth and Virginia Realty Company..	39	45,000 00	
42	Duluth, Rainy Lake & Winnipeg Rail- way Company	44	2,000,000 00	
43	Duluth, Winnipeg and Pacific Railroad Company	44	100,000 00	
44	Duluth, Winnipeg and Pacific Railway Company	23	3,100,000 00	
45	*Grand Trunk-Milwaukee Car Ferry Company	52	200,000 00	
46	The Grand Trunk Pacific Branch Lines Company	49	200,000 00	
47	*The Grand Trunk Pacific Development Company, Ltd.	49	3,000,000 00	
48	*Grand Trunk Pacific Dock Company, of Seattle	49	150,000 00	
49	The Grand Trunk Pacific Railway Company	1	24,940,200 00	
50	The Grand Trunk Pacific Saskatchewan Railway Company	49	20,000 00	
51	*Grand Trunk Pacific Terminal Elevator Company (Ltd.)	49	501,000 00	
52	Grand Trunk Western Railroad Com- pany (Common)	1	20,000,000 00	
	Grand Trunk Western Railroad Com- pany (Preferred)	1	25,000,000 00	
53	The Great North Western Telegraph Company of Canada (including \$331,500 held in escrow).....	16	373,625 00	6,925 00
54	The Halifax and South Western Rail- way Company	23	1,000,000 00	
55	*Industrial Land Company.....	52	1,000 00	
56	International Bridge Company.....	1	1,500,000 00	

SCHEDULE OF COMPANIES COMPRISING THE CANADIAN NATIONAL
RAILWAY SYSTEM—*Concluded*

	Name of Issuing Company	Owned by Company Number	Capital Stock Issued	Owned by Public
57	The Irondale, Bancroft and Ottawa Railway Company	23	53,500 00	500 00
58	The James Bay and Eastern Railway Company	23	125,000 00	
59	The Lake Superior Terminals Company Ltd.	23	500,000 00	
60	The Maganetawan River Railway Com- pany	1	30,000 00	
61	Manitoba Northern Railway Company.	1	500,000 00	
62	The Marmora Railway and Mining Company	23	128,600 00	
63	The Minnesota and Manitoba Railroad Company	23	400,000 00	
64	The Minnesota and Ontario Bridge Company	23	100,000 00	
65	Montreal and Province Line Railway Company	28	1,000,000 00	
66	*Montreal and Southern Counties Rail- way Company	1	500,000 00	189,500 00
67	The Montreal and Vermont Junction Railway Company	31	197,300 00	
68	*Montreal Fruit & Produce Terminal Company, Ltd.	1	500 00	
69	*The Montreal Stock Yards Company..	1	350,000 00	
70	*The Montreal Warehousing Company.	1	236,000 00	12,240 00
71	Mount Royal Tunnel and Terminal Company, Ltd.	23	5,000,000 00	
72	Muskegon Railway and Navigation Company	52	161,293 00	
73	*National Terminals of Canada, Ltd. ...	1	2,500 00	
74	National Transcontinental Railway Br. Lines Company	1	500 00	
75	New England Elevator Company.....	1	400,000 00	
76	*The Niagara, St. Catharines and Toronto Railway Company.....	23	925,000 00	
77	*The Niagara, St. Catharines and Toronto Navigation Company (Ltd.)	76	100,000 00	
78	*The Oshawa Railway Company.....	1	40,000 00	
79	The Ottawa Terminals Railway Com- pany	1	250,000 00	
80	The Pembroke Southern Railway Com- pany	1	107,800 00	
81	Portland Elevator Company.....	1	50,000 00	
82	*Prince George, Ltd.	1	10,000 00	
83	*Prince Rupert, Ltd.	1	10,000 00	
84	The Quebec and Lake St. John Railway Company	23	4,508,300 00	489,160 00
85	The Qu'Appelle, Long Lake and Saskatchewan Railroad and Steam- boat Company	23	201,000 00	
86	*Rail & River Coal Company.....	1	2,000,000 00	
87	St. Boniface Western Land Company..	23	250,000 00	
88	The St. Charles and Huron River Railway Company	23	1,000 00	
89	St. Clair Tunnel Company.....	1	700,000 00	
90	The Stanstead, Shefford and Chambly Railroad Company	28	608,333 33	
91	*The Thousand Islands Railway Company	1	60,000 00	
92	The Toronto Belt Line Railway Company	1	50,000 00	16,600 00
93	†Trans-Canada Air Lines.....	1	3,750,000 00	
94	The United States and Canada Rail Road Company	1	219,400 00	475 00
95	Vermont and Province Line Railroad Company	1	200,000 00	
96	The Winnipeg Land Company Ltd.	23	100,000 00	
			<hr/> \$204,290,351 33	<hr/> \$ 4,564,600 00

* The Income Accounts of Companies indicated (*) are included in the System Income Account as "Separately Operated Properties".

† Treated as an Affiliated Company.

STATEMENT OF REVENUE TONNAGE BY COMMODITIES FOR YEARS 1941-1940

	Year 1941 Tons	Year 1940 Tons	Increase or Decrease Tons Per cent	
AGRICULTURAL PRODUCTS:				
Wheat	6,937,627	4,998,619	1,939,008	38.79
Corn	479,765	582,923	103,158	17.70
Oats	605,271	547,433	57,838	10.57
Barley	469,507	371,272	98,235	26.46
Rye	68,937	52,458	16,479	31.41
Flaxseed	73,793	46,837	26,956	57.55
Other grain	33,827	30,249	3,578	11.83
Flour	917,408	765,201	152,207	19.89
Other mill products	1,455,735	1,314,170	141,565	10.77
Hay and straw	97,958	101,048	3,090	3.06
Cotton	101,219	75,584	25,635	33.92
Apples (fresh)	84,516	75,444	9,072	12.02
Other fruit (fresh)	287,468	280,346	7,122	2.54
Potatoes	202,316	192,487	9,829	5.11
Other fresh vegetables	173,292	161,414	11,878	7.36
Other agricultural products	677,939	631,999	45,940	7.27
Total	12,666,578	10,227,484	2,439,094	23.85
ANIMAL PRODUCTS:				
Horses	22,743	27,582	4,839	17.54
Cattle and calves	257,543	250,896	6,647	2.65
Sheep	14,867	15,811	944	5.97
Hogs	184,347	161,222	23,125	14.34
Dressed meats (fresh)	215,615	204,686	10,929	5.34
Dressed meats (cured, salted, canned)	188,732	132,123	56,609	42.85
Other packing house products (edible)	48,989	45,425	3,564	7.85
Poultry	21,427	24,435	3,008	12.31
Eggs	46,903	38,065	8,838	23.22
Butter	70,741	65,114	5,627	8.64
Cheese	38,431	31,455	6,976	22.18
Wool	52,267	28,081	24,186	86.13
Hides and leather	83,719	62,589	21,130	33.76
Other animal products	84,618	72,157	12,461	17.27
Total	1,330,942	1,159,641	171,301	14.77
MINE PRODUCTS:				
Anthracite coal	2,108,001	1,675,492	432,509	25.81
Bituminous coal	8,572,054	7,896,579	675,475	8.55
Lignite coal	1,411,937	1,199,240	212,697	17.74
Coke	863,326	698,476	164,850	23.60
Iron ores	127,592	61,694	65,898	106.81
Copper ore and concentrates	229,660	202,484	27,176	13.42
Other ores and concentrates	2,089,724	1,569,905	519,819	33.11
Base bullion, matte, pig and ingot (non-ferrous metals)	707,897	567,939	139,958	24.64
Sand and gravel	1,929,958	2,077,764	147,806	7.11
Stone (crushed, ground, broken)	1,788,897	1,771,747	17,150	.97
Slate, dimension or block stone	91,575	90,661	914	1.01
Crude petroleum	386,834	368,140	18,694	5.08
Asphalt (natural, by-product petroleum)	263,084	251,080	12,004	4.78
Salt	372,516	317,128	55,388	17.47
Other mine products	1,247,156	864,510	382,646	44.26
Total	22,190,211	19,612,839	2,577,372	13.14
FOREST PRODUCTS:				
Logs, posts, poles, piling	487,968	511,686	23,718	4.64
Cordwood and other firewood	576,655	599,305	22,650	3.78
Ties	49,087	28,019	21,068	75.19
Pulpwood	2,114,953	1,893,570	221,383	11.69
Lumber, timber, box, crate and cooperage material	3,946,375	3,404,404	541,971	15.92
Other forest products	383,087	318,696	64,391	20.20
Total	7,558,125	6,755,680	802,445	11.88

STATEMENT OF REVENUE TONNAGE BY COMMODITIES FOR YEARS 1941-40
—Concluded

	Year 1941 Tons	Year 1940 Tons	Increase or <i>Decrease</i> Tons Per cent	
MANUFACTURES AND MISCELLANEOUS:				
Gasolene	1,408,197	1,245,489	162,708	13.06
Petroleum oils and petroleum products (except asphalt and gasolene)	870,085	813,257	56,828	6.99
Sugar	295,646	277,374	18,272	6.59
Iron, pig and bloom	261,676	189,721	71,955	37.93
Rails and fastenings	28,525	20,333	8,192	40.29
Iron and steel (bar, sheet, structural, pipe) ..	2,380,464	1,833,345	547,119	29.84
Castings, machinery and boilers	257,635	192,126	65,509	34.10
Cement	545,454	556,697	11,243	2.02
Brick and artificial stone	257,026	213,726	43,300	20.26
Lime and plaster	387,333	313,770	73,563	23.44
Sewer pipe and drain tile	26,228	25,172	1,056	4.20
Agricultural implements and vehicles other than autos	154,156	139,088	15,068	10.83
Automobiles, auto trucks and auto parts.....	2,557,722	1,733,986	823,736	47.51
Household goods and settlers effects	10,932	12,794	1,862	14.55
Furniture	53,533	42,406	11,127	26.24
Beverages	263,580	211,331	52,249	24.72
Fertilizers, all kinds	557,059	457,128	99,931	21.86
Newsprint paper	1,469,819	1,351,236	118,583	8.78
Other paper	264,510	234,928	29,582	12.59
Paper board, pulpboard and wallboard (paper)	320,984	252,519	68,465	27.11
Woodpulp	1,244,455	1,005,784	238,671	23.73
Fish (fresh, frozen, cured, etc.)	80,889	74,697	6,192	8.29
Canned goods (all canned food products ex- cept meats)	436,223	347,566	88,657	25.51
Other manufactures and miscellaneous	5,718,287	4,260,394	1,457,893	34.22
Merchandise (all L.C.L. freight)	1,774,138	1,499,721	274,417	18.30
Total	21,624,556	17,304,588	4,319,968	24.96
Grand total	65,370,412	55,060,232	10,310,180	18.73

Mr. BRADETTE: Mr. Chairman, I would like to put a question to the management of the C.N.R. A year ago last fall I was told that there was quite a bottleneck on the Canadian Northern in northern Ontario with regard to the shipment of lumber from British Columbia. I went to the board here in Ottawa and they said they were not aware of that. Are you making full use of the transcontinental section of the railway from Winnipeg to Quebec city? Is there any through traffic working there at the present time?

Mr. VAUGHAN: There is some traffic moving that way, but we are moving the traffic in what we consider the most economical way.

Mr. BRADETTE: Do you know what the bottleneck might be on the northern Ontario section of the old Canadian Northern?

Mr. VAUGHAN: No, sir.

Mr. BRADETTE: It is history, but I was told that the road bed west of Cochrane was in a very deplorable condition even when the King and Queen were here, in fact they could not travel over that section; but some days later on trains 1 and 2 were re-routed, so that it must have been in pretty good shape. Last fall I believe we had some heavy trains of German prisoners routed over that section too. I gather from that information that this road is in fairly good condition.

Mr. VAUGHAN: The roadbed is in a good enough condition to handle the traffic safely that is moving over it.

Mr. BRADETTE: And if need be, if you were overloaded on the Canadian Northern section of the system you could use that section at the present time?

Mr. VAUGHAN: Yes, it is in a satisfactory condition for the movement of freight.

Mr. BRADETTE: Is there not any criticism of the C.N.R. due to the fact that the B.C. lumber, for instance, was delayed in some sections of the road from the Manitoba border eastward?

Mr. VAUGHAN: We have had no delays at all.

Mr. BRADETTE: You have had no delays of that nature?

Mr. VAUGHAN: No, sir.

Mr. BRADETTE: So there is no necessity for using that very fine section of the Canadian National Railways for any other freight whatsoever to the Atlantic seaboard?

Mr. VAUGHAN: There is no need for it to be used to any greater extent than is being used at the present time.

Mr. ARMSTRONG: Page 26.

	December 31, 1940	Addi- tions During Year	Retire- ments During Year	Conversions During Year		December 31, 1941
Locomotives:				Added	Retired	
Passenger—Freight	2,092	....	61	....	....	2,031
Switching	448	....	12	....	....	436
Electric	15	9	....	....	....	24
Oil Electric	7	4	....	....	....	11
Total	2,562	13	73	....	....	2,502
Freight Equipment:						
Box Cars	63,782	300	350	156	502	63,386
Flat Cars	4,878	300	31	....	83	5,064
Stock Cars	3,080	....	6	....	....	3,074
Coal Cars	13,186	475	73	....	5	13,583
Tank Cars	153	....	5	....	....	148
Refrigerator Cars	2,945	290	32	....	208	2,995
Caboose Cars	1,411	....	28	106	1	1,488
Other Cars in Freight Service..	8	....	....	3	....	11
Total	89,443	1,365	525	265	799	89,749
Passenger Equipment:						
First Class Cars	881	28	3	....	....	906
Second Class Cars	140	....	....	22	2	160
Combination Cars	289	....	....	....	7	282
Immigrant Cars	194	19	....	....	1	212
Dining Cars	93	....	....	1	9	85
Parlor Cars	125	....	....	3	8	120
Sleeping Cars	318	5	....	1	11	313
Postal Cars	47	1	....	....	....	48
Baggage and Express Cars....	934	....	5	22	17	934
Unit Cars	53	....	4	....	....	49
Other Cars in Passenger Service	91	....	....	....	....	91
Total	3,165	53	12	49	55	3,200
Work Equipment:						
Business Cars	64	....	1	....	....	63
All other Cars in Company's Service	6,264	232	321	545	5	6,715
Total	6,328	232	322	545	5	6,778
Floating Equipment:						
Car Ferries	11	....	2	....	....	9
Barges	5	....	1	....	....	4
Tugs	6	....	2	....	....	4
Work	4	....	....	....	....	4

Mr. EMMERSON: On page 26 I notice that you have fewer tank cars this year than the previous years, five tank cars fewer. Are those tank cars for fuel oil and gasoline?

Mr. VAUGHAN: Any tank cars we have are used for our own products.

Mr. EMMERSON: They are used for the railway itself?

Mr. VAUGHAN: Our tank cars are largely used in the movement of what we call O.C.S. oil service in the province of British Columbia and elsewhere; that is fuel oil for our own locomotives.

Mr. ARMSTRONG: Pages 27 and 28 show various statistics of railway operation.

STATISTICS OF RAIL-LINE OPERATION

Train Miles:	Freight		Transportation Service Passenger		Total	
	1941	1940	1941	1940	1941	1940
Locomotive Drawn.....	40,364,715	34,570,862	19,603,832	17,949,193	59,968,547	52,520,055
Motor Unit Cars .....	.....	.....	1,166,371	1,222,646	1,166,371	1,222,646
Total	40,364,715	34,570,862	20,770,203	19,171,839	61,134,918	53,742,701
Locomotive Miles:						
Principal	40,392,690	34,590,380	19,603,841	17,949,195	59,996,531	52,539,575
Helper	1,626,057	931,919	267,568	149,169	1,893,625	1,081,088
Light	823,371	625,684	352,620	313,122	1,175,991	938,806
Train Switching	3,350,003	3,017,993	99,235	86,625	3,449,238	3,104,618
Yard Switching	13,747,527	11,301,055	1,084,996	1,015,606	14,832,523	12,316,661
Total	59,939,648	50,467,031	21,408,260	19,513,717	81,347,908	69,980,748
Car Miles:						
Loaded Freight Cars.....	1,060,297,777	869,837,901	774,834	532,777	1,061,072,611	870,370,678
Empty Freight Cars.....	512,885,837	429,886,243	773,669	293,523	513,659,506	430,179,766
Passenger Coach and Combination Cars	8,511,543	8,198,321	58,212,996	47,772,213	66,724,539	55,970,534
Sleeping, Parlor and Observation Cars	1,006,436	921,859	41,022,088	34,245,143	42,028,524	35,167,002
Dining Cars	171,422	176,817	6,976,162	5,166,379	7,147,584	5,343,196
Other Cars	8,929,225	9,490,569	50,972,432	48,508,199	59,901,657	57,998,768
Motor Unit Cars .....	.....	.....	1,232,892	1,280,565	1,232,892	1,280,565
Caboose	39,312,748	33,144,376	1,230,398	593,566	40,543,146	33,737,942
Total	1,631,114,988	1,351,656,086	161,195,471	138,392,365	1,792,310,459	1,490,048,451
Work Service						
Locomotive Drawn	Train Miles		Locomotive Miles		Car Miles	
	1941	1940	1941	1940	1941	1940
Locomotive Drawn	1,332,698	1,192,967	1,766,696	1,551,930	2,724,068	3,352,907
Motor Unit Cars	130	.....	.....	.....	.....	.....
Total	1,332,828	1,192,967	1,766,696	1,551,930	2,724,068	3,352,907

STATISTICS OF RAIL-LINE OPERATION

Average mileage of road operated	1941	1940
TON-MILES—TRAIN-HOURS IN ROAD SERVICE:	23,524.95	23,603.38
Gross ton-miles of cars, contents and cabooses.....	66,957,550,363	54,610,363,550
Net ton-miles of freight (revenue and non-revenue).....	30,049,483,326	23,893,076,937
Train-hours in freight road service	2,509,925	2,101,084
REVENUE TRAFFIC:		
Tons of freight carried	65,370,412	55,060,232
Ton-miles—Revenue freight	27,199,875,760	21,532,181,524
Freight revenue	\$239,592,287	\$194,562,209
Passengers carried	17,681,343	11,204,289
Passenger-miles	1,761,970,856	1,124,820,121
Passenger revenue	\$31,893,884	\$21,702,046
AVERAGES:		
Miles per revenue ton	416.09	391.07
Miles per revenue passenger	99.65	100.93
Revenue per ton-mile	\$0.00881	\$0.00904
Revenue per passenger-mile	\$0.01810	\$0.01929
Revenue per ton	\$3.66515	\$3.53362
Revenue per passenger	\$1.80382	\$1.93694

STATISTICS OF RAIL-LINE OPERATION—*Concluded*

	1941	1940
AVERAGE PER MILE OF ROAD:		
Ton-miles—Revenue freight	1,151,306	908,158
Ton-miles—All freight	1,277,345	1,012,274
Passenger-miles—Revenue	74,898	47,655
Gross revenue	\$12,938.47	\$10,486.94
Gross expenses (including taxes, equipment and joint facility rents)	\$10,573.89	\$8,963.24
Net railway operating income	\$2,364.58	\$1,523.70

EMPLOYEES AND THEIR COMPENSATION

	1941	1940	Increase	% Increase
*Average number of employees	89,536	82,831	6,705	8.09
*Total payroll	\$153,654,368	\$132,584,063	\$21,070,305	15.89
*Includes railway, express and telegraph employees. Excludes hotel and subsidiary company employees.				

DISTRIBUTION OF THE DOLLAR

	Operating revenue dollar		Operating expense dollar	
	1941	1940	1941	1940
Labour .....	.4615	.4894	.5907	.5981
Fuel .....	.0848	.0827	.1086	.1011
Other expenses .....	.2349	.2461	.3007	.3008
Total operating expenses .....	.7812	.8182	\$1.00	\$1.00
Available for taxes and other accounts.....	.2188	.1818	—	—
Total	\$1.00	\$1.00	\$1.00	\$1.00
Maintenance of way accounts .....	.1547	.1616	.1980	.1975
Maintenance of equipment accounts .....	.1812	.1944	.2319	.2376
Traffic accounts .....	.0174	.0208	.0223	.0254
Transportation accounts .....	.3879	.3986	.4966	.4872
Miscellaneous accounts .....	.0089	.0067	.0114	.0082
General accounts .....	.0324	.0376	.0415	.0459
Transportation for investment—credit .....	.0013	.0015	.0017	.0018
Total operating expenses .....	.7812	.8182	\$1.00	\$1.00
Available for taxes and other accounts.....	.2188	.1818	—	—
Total	\$1.00	\$1.00	\$1.00	\$1.00

Mr. JACKMAN: Under the distribution of the dollar account I see you spent .2188 available for taxes and other accounts. Are those chiefly taxes, local taxes?

Mr. ARMSTRONG: That is the amount left over after paying operating expenses. The operating ratio is 78.12 per cent, meaning that 78.12 cents of every revenue dollar was spent on operating expenses which left 21.88 cents for all other accounts, taxes, interest and everything else.

Mr. JACKMAN: I see what you mean. How much are your taxes on the operating dollar?

Mr. ARMSTRONG: Taxes are \$6,900,000 out of revenues of \$304,000,000 about 2 per cent.

Mr. VAUGHAN: That does not, of course, include duty or sales tax.

Mr. JACKMAN: We have the comparable figure for the C.P.R. of 7.6 out of their operating dollar for expenses.

Mr. ARMSTRONG: Theirs, of course, includes income and an excess profits tax which is not assessed against the Canadian National, except as our net earnings may be transferred to the government.

Mr. BRADETTE: Could you give us a breakdown on that third line .2349? That is a very large item.

Mr. ARMSTRONG: Operating expenses are shown in detail on pages 15 to 17 inclusive. They include labour, material and all other expenses. Many of those accounts, such as superintendence, for example, on page 15, the first account, would include some labour, some material and some other expenses.

Mr. BRADETTE: I suppose this is history by now, but many of the common people have considerable criticism to make sometimes with respect to the superintendent's private car. Personally, I have no objection, although I have never used any of them. I would like to ask whether there is any curtailment during the war situation in that regard. Some people believe there is an abuse. When they see the management and the superintendents travelling in small cars they often wonder why they see a private car standing at a siding for a number of days. That criticism usually comes from farmers and the pulpwood farmers. Personally I do not believe there has been any abuse, but a lot of people think there has been.

Mr. VAUGHAN: The superintendent of the road is supposed to be on the line most of the time superintending the movement of traffic, etc. But what you speak of is something that is watched carefully by us and I do not think there is any abuse. I do not know what a superintendent's car would be doing lying on a siding at an outlying place for several days. It might be his home town and he might not be out for a few days, but there is no abuse. The superintendent's car is his home in a great many cases.

Mr. BRADETTE: Yes, I know of no abuses in my own district, but you can easily visualize what the people would say going to the station and seeing some of the passenger coaches half empty and at the same time seeing a private car standing there.

Mr. VAUGHAN: That private car is the superintendent's office, and you usually find that he has his roadmaster and section foreman and district engineer and others with him, and he has to conduct his day to day business in his car and at the same time supervise the work along the road.

Mr. DONNELLY: Mr. Chairman, is this ratio this year one of your best years?

Mr. VAUGHAN: Yes, it is the best year.

Mr. DONNELLY: Could you give us the ratio, the operating ratio for the last ten years?

Mr. VAUGHAN: We can give it to you. Mr. Cooper has it there.

Mr. COOPER: For 1931, 99.40; 1932, 96.34; 1933, 96.16; 1934, 92.14; 1935, 91.77; 1936, 91.89; 1937, 91.12; 1938, 96.67; 1939, 89.77; 1940, 81.82; 1941, 78.12.

Mr. SANDERSON: As regards 1941 and 1942 to date, 1942 shows quite an increase on 1941, does it not?

Mr. VAUGHAN: Yes, it is a little better than 1941, that is the first three month of this year.

Mr. SANDERSON: What is the percentage?

Mr. VAUGHAN: I gave a statement a few days ago in that connection which is on the record. To the end of March operating revenues showed an increase of \$14,900,000 over 1941, or an increase of 23 per cent. The operating expense showed an increase of \$10,400,000, an increase of 19 per cent; net revenue therefore is \$4,500,000 better than it was in the first quarter of 1941. This increase in net revenue is after making still further provision for depreciation on equipment in view of the more intensive use of it. That is, for the first three months of this year our operating ratio is 80.88 as against 83.47 for the first three months of last year.

Mr. JACKMAN: How do you expect to show this increased operating surplus for the year with a ratio of 88 per cent for the first quarter?

Mr. VAUGHAN: 80·8 per cent.

Mr. JACKMAN: As against 83 per cent?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: Of course, during some of those years you had to get part of your operating dollar out of your deficit account, did you not? You had an operating loss?

Mr. COOPER: The Canadian National Railways has never failed to earn its operating expenses.

Mr. JACKMAN: Just the interest charges?

Mr. COOPER: Yes. Any deficit we have had was with respect to interest and not with respect to operating expenses.

Mr. JACKMAN: Even in 1931 where you paid out 99·40 of your operating dollar, that was still your own money that you took in from the public and not money that was obtained from the government?

Mr. COOPER: Yes.

Mr. JACKMAN: When we were dealing with the Canadian National-West Indian Steamship service Mr. Cooper was referring to the capitalizing of the deficit and how unsound it was from the standpoint of conservative accounting practice, and this profit and loss deficit on the West Indies' books stands at \$10,090,000. I am sure that the company feels that they can never surmount that deficit. It would be unreasonable I think to expect it. Could we ask for an expression of opinion from the management as to what recommendation they would like this committee to make to the government; what recommendation they would like this committee to consider?

Mr. VAUGHAN: It would be difficult for us to do that now. The Canadian National Steamships Company is doing better. This is accounted for by the large volume of traffic moving. I do not think it would be wise for us to make that recommendation at the present time. We might at some later date ask the committee to assist us in that connection; but I do not think it would be wise to do it at the present time.

Mr. JACKMAN: It represents a loss which is most unlikely to ever be recaptured.

Mr. VAUGHAN: I do not think we will ever recapture it all; we are hoping to recapture some of it.

Mr. COOPER: We paid back some \$600,000 last year.

Mr. VAUGHAN: Yes, we paid that much back.

Mr. JACKMAN: How much extra interest was it you paid on the arrears?

Mr. COOPER: Some \$600,000.

Mr. JACKMAN: In other words, you are almost servicing the deficit now?

Mr. COOPER: Yes, we had a surplus of \$593,000 last year, which was additional to the interest for the year of \$346,000. In other words, we paid our current interest and we reduced our deficit by \$593,000.

Mr. JACKMAN: Or, in other words, you paid your current interest and interest on the deficit, which works out to about 6 per cent. On \$10,000,000 you paid nearly \$600,000.

Mr. COOPER: Yes.

Mr. HARRIS: I should like to ask how this distribution of the dollar compares with class A railroads in the United States.

Mr. VAUGHAN: Have you any information on that, Mr. Armstrong?

Mr. ARMSTRONG: Yes. I can give it to you by general accounts. That is, as it is shown in the latter half of this table. Class 1 roads, for 1941, maintenance of way account, 11·28; maintenance of equipment, 18·56.

Mr. HARRIS: 11.28. That compares with 19?

Mr. ARMSTRONG: No, 15.47.

Mr. HARRIS: And the figure is what?

Mr. ARMSTRONG: The figure is 11.28 for class 1 roads; 15.47 for the C.N.

Mr. HARRIS: What would it be for the C.P.R., or is that public?

Mr. ARMSTRONG: This is the C.P.R. We have it for 1941. These are preliminary figures we have for the C.P.R. As to comparability, whether they are the same or not, I do not know. The preliminary figure 13.30 is the corresponding figure for the C.P.R.. For maintenance of equipment, class 1 roads; it is 18.56; and the C.N., 18.12.

Mr. HARRIS: And the C.P.R.?

Mr. ARMSTRONG: The C.P.R. is 18.68. For traffic it is 2.09 for class 1 roads, 1.74 for the C.N., and 2.17 for the C.P. Transportation for class 1 roads is 33.20; C.N., 38.79 and C.P.R. 32.62. General expenses 2.59 for class 1 roads, 3.24 for the C.N., and 3.19 for the C.P. All other expenses .81 for class 1 roads, .89 for the C.N. and 1.69 for the C.P. Transportation for investment credit, class 1 roads and the C.P. show no figure for that in 1941. For the C.N. the figure is .13 of a credit. I think you will find that class 1 roads and the C.P.R. have deducted that item from their transportation percentage.

Mr. HARRIS: That is a small item.

Mr. ARMSTRONG: Yes, very small. The total is 68.53 for class 1 roads; 78.12 C.N. and 71.65 C.P.

Mr. HARRIS: Do you anticipate another marked gain in the present year?

Mr. ARMSTRONG: I beg your pardon.

Mr. HARRIS: There will be a very considerable improvement in the present year, will there not?

Mr. VAUGHAN: We hope to make an improvement, Mr. Harris. I think you were absent when the cost of living bonus and other expenses were mentioned.

Mr. HARRIS: Yes.

Mr. VAUGHAN: We will pay this year for cost of living bonus, plus wage increases in the United States, plus unemployment insurance, probably \$15,000,000 or \$16,000,000 more than it cost us last year. But, notwithstanding that fact, we hope to have a better year this year than last year. Materials are also advancing in price, notwithstanding the Wartime Prices Control.

Mr. BRADETTE: Materials?

Mr. VAUGHAN: Yes, materials.

Mr. JACKMAN: What does the transportation accounts item cover?

Mr. ARMSTRONG: That is shown on page 16 of the annual report.

Mr. JACKMAN: I see you have got train fuel in the transportation expenses and yet you have got fuel in the distribution of the dollar.

Mr. ARMSTRONG: I think you will find, Mr. Jackman, that there are two distributions on page 28. You will notice the first distribution is one between labour, fuel and other expenses and available for taxes and other accounts.

Mr. JACKMAN: That is right.

Mr. ARMSTRONG: That totals a dollar.

Mr. JACKMAN: I see.

Mr. ARMSTRONG: Then it is broken down again to total a dollar.

Mr. JACKMAN: Why is your transportation account expense relatively so much higher than class 1 railroads? You have 38 cents and they are 33 cents.

Mr. ARMSTRONG: The transportation ratio depends on a great number of factors, one of which is traffic density which is just one item. In the United States, for example, you have transportation ratios anywhere from probably about 20 per cent up to 40 per cent or 45 per cent. The class 1 roads have a

traffic density that is probably 50 to 75 per cent greater than the C.N. The same thing is true of the C.P. Their traffic density is 20 to 25 per cent heavier than the C.N. There are several factors. The proportion of passenger business, for example, has an effect on it; the proportion of passenger in relation to the total business; the average haul of freight would have some bearing on it; the types of commodities handled would have a bearing on the weight per car; the grade conditions, curvature conditions, all sorts of things affect transportation expenses in comparing the cost on two different railroads. One other point is the question of how much money you get for the work you perform. For instance, we get a lower amount per ton mile than many other railroads. We have to perform more work to earn the same dollar, which raises the transportation ratio.

Mr. NICHOLSON: How do you arrive at this maintenance of way accounts item of .1547 under the operating revenue dollar? How is that figure arrived at?

Mr. VAUGHAN: I do not quite understand the question.

Mr. NICHOLSON: Under this item of operating revenue dollar, maintenance of way is given as .1547. How do you arrive at the revenue under the maintenance of way accounts?

Mr. WALTON: No. The revenue is not allocated to the maintenance of way. Out of the total earnings of a dollar, .1547 cents are spent in maintenance of way. It is tied in with the dollar.

Mr. NICHOLSON: In the other column, we have operating expense dollar, .1980. I am not very clear what the distinction is in these two columns, on maintenance of way accounts.

Mr. WALTON: I do not quite get the point.

Mr. NICHOLSON: In connection with maintenance of way accounts, you have under operating revenue dollar, .1547 and under operating expense dollar, .1980. How do you figure the revenue?

Mr. WALTON: The first double column has reference to operating revenue. The next pair of columns are in respect to operating expenses.

Mr. NICHOLSON: I can understand how operating expense is in connection with maintenance of way but not what revenue you are showing under maintenance of way.

Mr. WALTON: You do not. It is just tied into the revenue to form a percentage that maintenance of way costs are to each dollar earned, not earned by maintenance of way but earned on the railway.

Mr. VAUGHAN: One has relation to the amount earned and the other has relation to the amount expended.

Mr. WALTON: Yes.

The CHAIRMAN: Have you taken up page 29 yet?

Mr. DONNELLY: Not yet.

Mr. HARRIS: Before you dispose of page 28, I should like to ask a question about traffic accounts. Does that include the industrial bureaus?

Mr. VAUGHAN: I did not catch that.

Mr. HARRIS: On page 28, under the heading of distribution of the dollar, there is an item of traffic accounts. Do those traffic accounts include the industrial bureaus?

Mr. VAUGHAN: Yes, sir.

Mr. HARRIS: How many industrial bureaus are there? Do they follow the same division as the railway does?

Mr. VAUGHAN: We have an industrial man in Montreal, and then we have one on each region.

Mr. HARRIS: The purpose of the question, Mr. Chairman, was to record the good work which the industrial bureaus are doing, and to bring to the attention of the management that that is one phase of their activity that should be given more and more attention. I am desirous of paying tribute particu-

larly to those who work out of Winnipeg. At the same time, I shall make this observation, that I am doubtful whether they are keeping pace with their competitors in the same line of activity. Whether that is due to shortage of staff or what, I am not just sure. They are doing good work, but they are not doing a work that is good enough, in my opinion. I should like the management, if they feel so disposed, to make a general statement with regard to the policy and the work of this industrial bureau as it applies to industry particularly.

Mr. VAUGHAN: Our industrial bureau's duty is to get in touch with every prospective industry, with a view to obtaining the location of that industry on our lines, and naturally to secure the traffic from that industry. They have their ear to the ground all the time, and wherever they learn of an industry that is likely to come to this country from the States or elsewhere anyone who wants a new plant, anyone who wants a site, they get in touch with him. If any department of government wants a site for a munitions plant or anything of that kind, the industrial departments are there to serve them. We thought our industrial department, in all regions, was rather efficient, and we have received a great many complimentary remarks in respect to the work they have done.

Mr. HARRIS: I should like to ask this question, Mr. Chairman. Has any contact been made with the industries in the United Kingdom which have been demoralized through the war conditions over there, towards getting those industries or advising those industries, through this agency who no doubt have a United Kingdom connection, as to the possibility of coming over here?

Mr. VAUGHAN: Yes. We have a representative in London who is looking after that work.

Mr. HARRIS: Who is that? Who does he come under?

Mr. VAUGHAN: He comes under the jurisdiction of Mr. Clews, our European manager in London.

Mr. HARRIS: That is the European manager in London?

Mr. VAUGHAN: Yes.

Mr. HARRIS: I was thinking, Mr. Chairman, more particularly of the United Kingdom.

Mr. VAUGHAN: He has charge of our United Kingdom work especially, but his jurisdiction extends all over Europe. He cannot do much there now, but in normal times we have representatives in the important places in Europe.

Mr. HARRIS: With all due deference to the witness's opinion, Mr. Chairman, I am of opinion that a very great deal can be done in the United Kingdom in the case of industries which are bombed out, industries which previously enjoyed the Canadian market under the British preference. I bring to the attention of the management that there is a good field for the activities of their industrial bureau, and I should like the management to say or give us some idea of what facilities there are in the United Kingdom to take care of that particular feature.

Mr. VAUGHAN: We have a man in our London office, Mr. Harris, who makes it his particular business to keep in touch with these industries. That matter has been up on several occasions, and our men in London are watching that situation carefully.

Mr. HARRIS: What is the strength of the staff in London?

Mr. VAUGHAN: It has been reduced; many of our men have enlisted for active service. I can get you the number, I do not know it offhand. We have a substantial staff over there.

The CHAIRMAN: Are you through, Mr. Harris? Shall we go on with page 29

Mr. ARMSTRONG:

OPERATED MILEAGE, DECEMBER 31st, 1941

Territory	Mileage Owned by Constituent Companies				Mileage of Lines Under Lease or Contract		Mileage of Trackage Rights				Total Operated Road Mileage				Spurs Sidings & Yard Track
	1st Main Track	2nd Main Track	3rd Main Track	4th Main Track	1st Main Track	2nd Main Track	1st Main Track	2nd Main Track	3rd Main Track	4th & Other Main Tracks	1st Main Track	2nd Main Track	3rd Main Track	4th & Other Main Track	
	Miles	Miles	Miles	Miles	Miles	Miles	Miles	Miles	Miles	Miles	Miles	Miles	Miles	Miles	Miles
Atlantic Region.....	2,986.77	49.97	—	—	6.41	—	82.95	—	—	—	3,076.13	49.97	—	—	890.23
Central Region.....	7,137.29	714.28	15.91	9.82	337.55	9.31	29.72	25.17	2.13	4.10	7,504.56	748.76	18.04	13.92	2,617.65
Western Region.....	11,091.15	86.24	—	—	378.22	4.29	64.07	23.04	—	—	11,533.44	113.57	—	—	2,548.22
Grand Trunk Western Lines.....	904.62	363.18	10.62	—	61.14	—	59.75	6.33	1.36	0.99	1,025.51	369.51	11.98	0.99	805.92
Central Vermont Lines.	237.90	0.63	—	—	125.18	0.03	58.73	32.75	—	—	421.81	33.41	—	—	161.80
*Total Mileage.....	22,357.73	1,214.30	26.53	9.82	908.50	13.63	295.22	87.29	3.49	5.09	23,561.45	1,315.22	30.02	14.91	7,023.82
Lines in Canada.....	20,984.20	849.92	15.91	9.82	565.43	12.49	172.35	44.77	2.13	4.10	21,721.98	907.18	18.04	13.92	5,893.89
Lines in United States.	1,373.53	364.38	10.62	—	343.07	1.14	122.87	42.52	1.36	0.99	1,839.47	408.04	11.98	0.99	1,129.93

* Separately Operated Lines (Gasoline Electric and Electric) not included.

Mr. EMMERSON: On that first item, the Atlantic region, can you tell the committee the amount of mileage there and where the trackage is?

Mr. VAUGHAN: We can get that for you.

Mr. EMMERSON: I should like to ask one other question with regard to the mileage of trackage 82·95. Is that not a portion of the track operated by the D.A.R.?

Mr. WALTON: We will have to look that up.

Mr. ARMSTRONG: I think the principal item there is the Fredericton to Vanceboro line. We have running rights over the Canadian Pacific. I think that is the principal item of that 82·95.

Mr. EMMERSON: That is the principal item of the 82·95 miles?

Mr. ARMSTRONG: I said included in that is the trackage rights of the Canadian National over the Canadian Pacific between Fredericton and Vanceboro. The Canadian National has running rights over the Canadian Pacific line between these two points.

Mr. EMMERSON: From Fredericton to Vanceboro?

Mr. ARMSTRONG: Yes.

Mr. VAUGHAN: In one or two places from Saint John to Westfield Beach we use the Canadian Pacific Railway. They would all add up in that total. We can break that down and give it to you later.

Mr. ARMSTRONG: The thing that may be confusing about that, Mr. Emmerson, is this: we have trackage rights between these points and under a co-operative agreement the Canadian Pacific handles our traffic between Fredericton and Vanceboro. There is, however, an agreement for trackage rights between those points.

Mr. EMMERSON: Where is that trackage shown from Windsor Junction to Windsor?

Mr. ARMSTRONG: That would not be in here, sir, that would be in the Canadian Pacific annual report. They have trackage rights over our line.

Mr. EMMERSON: They lease the line; you do not operate it at all.

Mr. ARMSTRONG: Not between Windsor Junction and Halifax.

Mr. EMMERSON: No, Windsor Junction and Windsor. You own the line, but you do not run a train over it.

Mr. ARMSTRONG: That would be shown in the Canadian Pacific report, I would say, if it is a line which they lease.

Mr. EMMERSON: That is the only operated mileage?

Mr. ARMSTRONG: Operated mileage of the Canadian National system.

Mr. VAUGHAN: I think the best thing is to give you the details of that. It is made up of a number of small items, Mr. Emmerson.

Mr. DONNELLY: Your total mileage would be all these figures added together which would give a total of 31,945?

Mr. ARMSTRONG: Total miles of track or road?

Mr. DONNELLY: Track.

Mr. ARMSTRONG: Miles of track would be the first track, 23,561; second main track, 1,315; third main track, 30 miles; fourth and other main tracks, 14·9; spurs, sidings and yard tracks, 7,023, making a total of 31,000, practically speaking, of all tracks.

Mr. DONNELLY: Nearly 32,000.

Mr. ARMSTRONG: That is right, nearly 32,000.

Mr. DONNELLY: I move the report be adopted.

Mr. JACKMAN: Does the railway have any trucking subsidiaries?

Mr. VAUGHAN: We operate trucks, but we have no trucking subsidiary companies.

Mr. JACKMAN: You operate trucks merely from the station to the point of delivery. Do the trucks actually carry goods or passengers a number of miles?

Mr. VAUGHAN: We have a few places where we do that, yes. For instance, we operate a bus service from Geraldton into Port Arthur, also a truck service between those points.

Mr. BRADETTE: Mr. Chairman, may I ask a question of Mr. Vaughan? I come from a relatively small section of the railway community. Some of the complaints I hear in travelling about from one section to another is that the clerical staff and the maintenance staff in cities like Toronto, Montreal, Winnipeg and Vancouver, have the chance of advancement that our men have not. I am thinking of what Napoleon said that every soldier has a marshal's baton in his knapsack. I notice a great many of the higher positions in my district are occupied by men from outside that section. I do not know, or at least I have been told that men in our division have no place to graduate to in regard to higher positions. If that is true it would be discouraging for these bright young men. In the past I know the young men have graduated to higher positions; and as I look around me here in this room I see officials of the C.N.R. who have graduated to their high rank from low positions. If that chance is not given to the young men in our district and the section around there it will be very discouraging to them. As far as the superintendents are concerned in my section they are all good men, but they come from Toronto or Quebec City or something like that. I am thinking of Mr. Gibault and others who have graduated into higher ranks from my own section.

Mr. VAUGHAN: You had some superintendents graduate into a higher rank from there.

Mr. BRADETTE: Not the clerical staff. It seems to me if these young men are not given that opportunity they will be discouraged. I know that is the case with regard to the accountants.

Mr. VAUGHAN: We had that matter up the other day. We are trying to give these men some advancement by centralizing accounting. Some of them will be moving into larger places where they will have a better opportunity for advancement.

Mr. BRADETTE: They will be given the chance to move?

Mr. VAUGHAN: Oh, yes.

The CHAIRMAN: Gentlemen, are you ready to adopt this report?

Mr. DONNELLY: I move we adopt the report.

Mr. McCULLOCH: I second it.

Mr. LOCKHART: May I ask one question, please. May I ask Mr. Vaughan to what extent bus services are being used to assist where rail services are being discontinued or perhaps not satisfactory to meet the public demand? Are there many points where that is being done?

Mr. VAUGHAN: You have reference to our own bus service?

Mr. LOCKHART: Yes.

Mr. VAUGHAN: No; I think only in the Niagara Peninsula.

Mr. LOCKHART: That is what I was referring to. That is not being done generally?

Mr. VAUGHAN: That is about the only place where we are doing it.

Mr. LOCKHART: It seems to be working out very satisfactorily?

Mr. VAUGHAN: Yes.

The CHAIRMAN: Are there any further questions?

Now there is the motion that this report be adopted; it is so moved by Dr. Donnelly, seconded by Mr. McCulloch.

Motion agreed to.

Mr. DONNELLY: I move that we adjourn.

The CHAIRMAN: Just a minute, don't be in a hurry for a minute. We have before us here four items related to the estimates: No. 400, Maritime Freight Rates Act, Canadian National Railways' eastern lines, \$3,350,000.

Mr. DONNELLY: I think we had better let this stand until this evening because I notice some of the members have not their copies of the estimates with them. Also, I notice that in the blue book it says \$3,500,000 last year, and it seems to me quite a bit less this year.

The CHAIRMAN: What is your pleasure, gentlemen, will the committee sit to-night at 8.30?

Motion to sit to-night at 8.30 was agreed to.

The committee adjourned at 6.50 o'clock p.m. to meet again at 8.30 o'clock p.m. this day.

EVENING SESSION

The committee resumed at 8.30 o'clock p.m.

The CHAIRMAN: Gentlemen, we have four votes before us which it is customary for this committee to pass and recommend to the house. The first one is No. 400 which you will find on page 47 of the current estimates.

Mr. McCULLOCH: I move that the item pass.

(Item agreed to).

The CHAIRMAN: The next is vote No. 401.

Mr. DONNELLY: I move that the vote pass.

(Item agreed to).

The CHAIRMAN: The next is vote No. 410.

Mr. DONNELLY: I move that the item pass.

(Item agreed to).

The CHAIRMAN: The next is vote No. 411.

Mr. DONNELLY: That is Prince Edward Island. I move that the vote carry.

(Item agreed to).

The CHAIRMAN: Now, gentlemen, if you will permit Mr. Matthews of George A. Touche & Co., the auditors, to appear before you, Mr. Matthews will be greatly obliged because he is anxious to get back to his office in Montreal. I presume we will have Mr. Matthews read this report in the ordinary way.

Mr. MATTHEWS: (Reads):

10th March, 1942.

The Honourable the Minister of Transport,
Ottawa, Canada.

SIR,—In pursuance of The Canadian National-Canadian Pacific Act, 1936, and Chapter 5, 1941, "An Act respecting the appointment of Auditors for National Railways," we have audited the accounts of the Canadian National Railway System for the year ended the 31st December, 1941, and we now submit, through you, our report to Parliament.

We attach hereto the following financial statements of the National System:—

Exhibit I—Consolidated Balance Sheet at the 31st December, 1941—
together with Audit Certificate.

Exhibit II—Dominion Government—Proprietor's Equity at the 31st
December, 1941.

Exhibit III—Consolidated Profit and Loss Account—Year 1941.

Exhibit IV—Consolidated Income Account—Year 1941.

Exhibit V—Investments in Affiliated Companies at the 31st December, 1941.

Exhibit VI—Major Contingent Liabilities, including pension plans, at the
31st December, 1941.

Consolidated Balance Sheet

Investments in properties and equipment appearing in the books of the companies as at the 1st January, 1923, were accepted by us. As against the corporate property investments brought into the National system accounts in 1923, there have been applied the reductions as authorized by The Canadian National Railways Capital Revision Act, 1937. Since the 1st January, 1923, the property additions and betterments less retirements have been shown at cost. The property additions from that date include construction expenditures on certain branch lines, the completion of which has been suspended for some years.

Investments in affiliated companies, as set out in Exhibit V, are represented in the main, apart from the Trans-Canada Air Lines, by a 50% or less capital stock ownership. The basis of the balance sheet figure is cost, or in certain instances special valuations approved by the Interstate Commerce Commission. There are two principal factors for consideration in this type of investment by the railroad industry generally, viz:—

- (1) The extent of traffic benefits derived by parent companies as a direct result of their investments, and
- (2) The fact that the affiliates have utilized the proceeds from the sale of their securities largely for investment in transportation properties and equipment. It is obvious therefore, that the future valuation trend affecting investments in affiliated companies will be dependent, basically, upon the future economic value of the properties and equipment of the railroad industry generally.

The insurance reserve, mainly covering fire risks, is invested principally in the securities of Dominion, provincial and municipal governments, and in the securities of companies within the National system.

In respect of accrued depreciation it should be noted that from the 1st January, 1940, depreciation accounting has been applied to rolling stock owned by all lines of the system and retirement accounting to fixed properties, and that prior to that date depreciation accounting was applied to rolling stock owned by United States lines and retirement accounting, on the basis of original cost, to other units of property on the system.

The accounts of the system are stated in Canadian currency—sterling and United States currencies being converted at the par of exchange.

A summary of Dominion Government—proprietor's equity at the 31st December, 1941, is set forth on the balance sheet and the transactions during the year 1941 affecting proprietor's equity are detailed in Exhibit II.

Major contingent liabilities, including pension plans, are dealt with in Exhibit VI. With reference to pension plans, we would point out that reserves are not set up in the balance sheet against pensions presently being paid or conditionally accruing under the 1935 contractual plan and prior non-contractual plans. Actual pension payments made at the expense of the railway are charged currently to operating expenses. In respect of the pension contracts already issued and in force under the 1935 contractual plan the railway has made a tentative estimate, which has been accepted by us, showing a capital amount approximating \$18,000,000. This capital estimate does not cover the pensions conditionally accruing under the 1935 contractual plan.

Consolidated Profit and Loss Account

The cash surplus for the year 1941, as shown in Exhibit III, is after making provision for the following:—

- (a) Interest on funded debt held by the public;
- (b) Interest on current loans from the government;
- (c) Amortization of discount on funded debt;
- (d) Depreciation on rolling stock, and
- (e) Fixed property retirements apart from capital losses charged to proprietor's equity.

Surplus working funds made available through charges for amortization, depreciation and fixed property retirements, included above, have been applied in reduction of the capital expenditure cash requirements from the government for the year 1941.

In the matter of current maintenance policy we have received certificates from the president to the effect that the properties and equipment of the National system have been maintained in a proper state of repair and in an efficient operating condition during the year 1941.

Canadian National Railways Securities Trust

The accounts of the National system comply with the provisions of The Canadian National Railways Capital Revision Act, 1937.

The Canadian National Railways Securities Trust, under authority of section 22 of the Capital Revision Act, has been treated as a constituent unit of the National system at the 31st December, 1941. There is, however, a provision in section 23 of the Act requiring presentation to parliament of a trustees' report and a separate balance sheet for the securities trust. The trustees' report sets forth in a summary manner the transactions of the securities trust during the year 1941. Our audit certificate is appended to the separate balance sheet.

General Scope of Audit

The general scope of the test audit which we have made of the National system for the year 1941 may be outlined briefly as follows:—

- (a) Examination of major expenditure authorities which were based principally upon recorded resolutions of the directors. These major expenditure authorities in turn have been established mainly by corporate by-laws of the Canadian National Railway Company, Acts of Parliament and orders in council.
- (b) Audit tests in the offices of regions, separately operated properties and system headquarters, covering a cross section of the major expenditures so authorized.

- (c) Examination into the adequacy of the internal audit control in general by the accounting staff of the system. In this connection we work in collaboration with the executive accounting officers at headquarters, having as a common objective the securing of maximum internal protection to the system in the control of cash receipts and expenditures, securities held, material stores, accounts receivable, etc., and
- (d) Audit and certification of the consolidated balance sheet, income and profit and loss accounts for presentation to parliament, which body is thus placed in possession of facts upon which conclusions can be reached as to the stewardship of the duly appointed administrators of the system.

The audit covered the various balance sheet accounting units in Canada, the United States and Great Britain with income and profit and loss accounts originating in the revenue offices, regions, separately operated properties and system headquarters applicable to some 96 companies comprising the National system as an operating entity.

A copy of our memorandum to the board of directors dealing with internal matters will be despatched to the Minister of Transport in due course.

We report to parliament that the National system accounts have been maintained, during the year 1941, in an efficient manner and generally in accordance with the accounting classifications in use by the class I railroads of the United States.

TRANS-CANADA AIR LINES

The Trans-Canada Air Lines have not been included as a constituent unit of the National system although 100 per cent stock ownership of the Air Lines is vested in the Canadian National Railway Company. A separate balance sheet and income account have been certified by us at the 31st December, 1941.

The insurance reserve, covering aircraft flying risks and employers' liability, is not specifically invested, the relative funds being included in the general working capital of the Air Lines.

The surplus for the year 1941, as shown by the income account of the Air Lines, is after making provision for:—

- (a) Interest at 5 per cent on the capital investment in accordance with the Trans-Canada contract, and
- (b) Depreciation on capital assets at rates similar to those used by other major air line companies in North America, in accordance with the Trans-Canada contract.

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

The accounts of the Canadian National (West Indies) Steamships, Limited, and subsidiary companies are not consolidated with those of the National system, the 100 per cent stock ownership of the parent steamship company being vested in the dominion. A separate consolidated balance sheet together with consolidated income and profit and loss accounts have been certified by us at the 31st December, 1941.

The SS "Lady Somers", which was requisitioned for war service in October, 1940, was reported lost in July, 1941, as a result of enemy action. Pending settlement by the government the capital value of this ship is shown separately on the consolidated balance sheet on the basis of original cost less accrued depreciation to the date of requisitioning.

The insurance reserve, covering marine and war risks, is invested principally in the securities of dominion, provincial and municipal governments. The SS "Lady Hawkins", reported lost as a result of enemy action in January, 1942, was insured in the insurance fund in the amount of \$1,500,000.

The surplus for the year 1941, as shown in the consolidated income account of the steamships, is after making provision for:—

- (a) Interest on funded debt held by the public;
 - (b) Interest on loans from the government, and
 - (c) Depreciation at 3% on the capital value of vessels. This rate, which has been in effect since the inception of the companies, is based upon an anticipated 25 year life and 25% salvage value.
-

In the matter of current maintenance policies we have received certificates from the responsible officers of the Trans-Canada Air Lines and the Canadian National (West Indies) Steamships, Limited, to the effect that the respective properties and equipment have been maintained in a proper state of repair and in an efficient operating condition during the year 1941.

In respect of both the Air lines and the steamships, the test audit which we have made for the year 1941 is similar in scope to that of the National system and may be outlined briefly as follows:—

- (a) Examination of major expenditure authorities, embracing mainly the recorded resolutions of the directors, corporate by-laws, acts of Parliament and Orders in Council;
- (b) Audit tests covering a cross-section of the major expenditures so authorized;
- (c) Examination into the adequacy of the internal audit control in general by the accounting staffs of the companies covering cash receipts and expenditures, securities held, material stores, accounts receivable etc., and
- (d) Audit and certification of the balance sheets, income and profit and loss accounts for presentation to Parliament.

We report that the accounts of the Air lines and the steamships have been efficiently maintained during the year 1941.

Yours faithfully,

GEORGE A. TOUCHE & CO.

These exhibits which follow that, exhibits 1 to 6, are in effect confirmation of the relative schedules supporting the railways' printed accounts. That covers exhibits 1 to 6.

The CHAIRMAN: Do you wish to point out anything in regard to this?

Mr. MATTHEWS: No. Our report, as far as we are concerned, Doctor, contains anything we wish to say about it.

The CHAIRMAN: Does the committee wish to go over these sheets and discuss them, or is there any discussion in connection with the report? I remember your recommending, either last year or the year before a, shall I say, uniform system of accounting, Mr. Matthews.

Mr. MATTHEWS: Yes.

The CHAIRMAN: You recommended that the Canadian railways do it. Did anything come of that, to your knowledge?

Mr. MATTHEWS: We have not included it in our report this year, Mr. Chairman, for the first time, I think, since 1933. The reason is that whilst we have not changed any view we hold in the matter, we feel that the time just now is not opportune to further press that matter. There was, as Mr. Cooper told the committee the other day, considerable work done with a view to bringing about some uniformity of accounting between these two railways; but, unfortunately, conditions made that impracticable of accomplishment at that time. I think Mr. Cooper explained that to the committee.

Mr. McCULLOCH: I move that that report be adopted.

The CHAIRMAN: It is moved by Mr. McCulloch that the report of George A. Touche & Company, auditors for the Department of Transport, be adopted as read.

Mr. NICHOLSON: Before you put this motion, there is a question I wish to ask. There is an item of liabilities, long-term debt, \$1,000,000. What percentage of this amount is held in Great Britain?

Mr. MATTHEWS: I could not tell you that.

Mr. HAZEN: The railway had certain assets in France, did they, at the time the war broke out? What became of those?

Mr. MATTHEWS: I did not hear the question.

The CHAIRMAN: Did the company have assets in France at the time the war broke out?

Mr. MATTHEWS: Oh, yes.

Mr. HAZEN: What became of them? Were they written off?

Mr. MATTHEWS: No. That is the Hotel Scribe. No, they are not written off. They are carried in account 705, investment in miscellaneous physical property in the main. The matter is included in our comments to the board, but we do not feel at this stage that there is any finality to any adjustments that might be made, so that the amount is carried in the investment account pending final determination of its fate.

Mr. HAZEN: What value do you place on it?

Mr. MATTHEWS: The value is carried in the books at cost.

Mr. HAZEN: What is that?

Mr. MATTHEWS: How much?

Mr. HAZEN: Yes.

Mr. MATTHEWS: \$2,666,173 is carried in miscellaneous physical property and \$64,000 is carried in road and equipment property.

Mr. HAZEN: Was work stopped after the war commenced, on any branch line?

Mr. MATTHEWS: Stopped after the war commenced?

Mr. HAZEN: Yes. Were you building any branch lines or doing any other construction work?

Mr. MATTHEWS: I would refer that question to Mr. Vaughan.

The CHAIRMAN: Yes. That is not for the auditors.

Mr. VAUGHAN: Not since the war. We had practically no construction work under way of branch lines when war started, so there was nothing to stop.

The CHAIRMAN: Are you ready for the question?

Mr. GRAY: Question.

The CHAIRMAN: All in favour? Contrary? I declare the motion is carried.

The next item, I imagine, ought to be the Canadian National Railways' Securities Trust.

Mr. MAYBANK: Before you pass to another matter, may I say that in spite of our having adopted the report of the C.N.R., I presume that we are going to have a visit from the Department of Air and also a return by the Minister of Naval Affairs?

The CHAIRMAN: That was the understanding, but Mr. Powers is not available and Mr. Macdonald was not in the house or I would have advised him. I do not know where he is.

Mr. MAYBANK: He was going to get some information.

The CHAIRMAN: Yes, I know. He has it and expected to come in this afternoon, but he did not come in.

Mr. MAYBANK: I thought I would say now that I still think it is important to have a picture of the Department for Air and Naval Affairs. That does not mean that we have got to stop now, though.

The CHAIRMAN: You would still like Mr. Macdonald to come back. You think we should send out and look for him?

Mr. MAYBANK: I was not suggesting how it be done.

The CHAIRMAN: That is the only way it can be done.

Mr. MAYBANK: He ought to be here.

The CHAIRMAN: All right. Meanwhile shall we proceed with this Canadian National Railways' Securities Trust?

Mr. DONNELLY: Proceed.

The CHAIRMAN: Then I will call on Mr. F. M. MacleNNan to present that report.

Mr. MACLENNAN:

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

OTTAWA, March 11, 1942.

The Honourable P. J. A. CARDIN, M.P.,
Minister of Transport,
OTTAWA.

SIR,—In conformity with Section 23 of The Canadian National Railways Capital Revision Act, 1937, the Trustees submit the following report of the transactions of The Canadian National Railways Securities Trust for the calendar year 1941.

The value of the Capital Stock of the Securities Trust has been increased during the year by \$1,576,413.70, this being the amount by which capital gain and surplus earnings of the Canadian National Railway System for the year 1941 exceeded the capital losses during the year.

The items of capital losses in respect of which His Majesty has not made cash reimbursement to the Railway are shown hereunder, together with the item of capital gain and the amount of surplus earnings of the Railway System:—

LINE AND PROPERTY ABANDONMENTS		
Parisville to Deschaillons.....	3.54 miles	\$ 61,234 71
Tweed to Yarker.....	33.94 "	607,145 87
Marmora Branch	6.19 "	76,534 35
Whitby to Port Perry.....	17.50 "	191,563 27
Niagara Falls City Lines.....	1.20 "	329,214 79
Clinton to Wingham Jct.....	22.93 "	430,773 37
Bay City Terminal Facilities.....	2.94 "	379,984 90
Red Deer Jct. to Red Deer.....	5.09 "	367,377 55
Fortierville to St. Gregoire.....		38,083 64
Quebec Central Railway—telegraph lines.....		57,274 76
Total		\$ 2,539,187 21
Capital gain on redemption of G.T.R. Perp. Debenture Stock...		99,274 17
Surplus earnings of the Canadian National Railway System for the year 1941.....		4,016,326 74
Net gain credited to Proprietor's Equity.....		\$ 1,576,413 70

With regard to the item of capital gain amounting to \$99,274.17, the Canadian National Railways, for the purpose of their 1940 accounts, estimated that £22,500,000 of Grand Trunk 4% Perpetual Debenture Stock would be finally surrendered under a Vesting Order, dated October 26, 1940, made by His Majesty's Treasury of the United Kingdom. Accordingly the relative capital gain of \$5,503,500 was dealt with in 1940 through Proprietor's Equity account. Particulars of this transaction are recorded in the report of the Securities Trust for 1940.

The amount of Debenture Stock redeemed under the United Kingdom Vesting Order to December 31, 1941, amounted to £22,760,000, resulting in a reduction in the outstanding debt of the Railway of \$5,567,096. A further amount of £139,890 was redeemed in 1941 under an offer, dated December 14, 1940, made to residents of Canada, which resulted in a reduction of \$35,678.17 in the Railway debt.

The reduction in the Railway debt as above, amounting to \$5,602,774.17, has been accounted for as a capital gain through Proprietor's Equity account—\$5,503,500 in the 1940 accounts and \$99,274.17 in the 1941 accounts.

There were no transactions during the year affecting the collateral securities held by the Securities Trust.

The Trustees present herewith the Balance Sheet of the Securities Trust as at December 31, 1941.

For the Trustees,

W. C. CLARK,
Chairman.

The next is the Balance Sheet of the Securities Trust as at December 31, 1941.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

BALANCE SHEET AT 31ST DECEMBER, 1941

ASSETS

Claims for Principal of Loans—
Canadian Northern Railway..... \$ 312,334,805 10
Grand Trunk Railway..... 118,582,182 33
Grand Trunk Pacific Railway..... 116,006,599 08
Canadian National Railway Company... 96,936,971 75

\$ 643,860,558 26

Claims for Interest on Loans—
Canadian Northern Railway..... \$ 309,702,897 65
Grand Trunk Railway..... 103,250,802 95
Grand Trunk Pacific Railway..... 107,326,622 84
Canadian National Railway Company... 54,501,313 57

574,781,637 01

Collateral Securities—
As per Schedule A.1.....

Amount by which the book value of claims
and interest thereon—per contra—exceeds
the book value of the capital stock as
shown above.....

\$ 1,218,642,195 27

951,359,175 95

\$ 1,218,642,195 27

T. H. COOPER,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of The Canadian National Railways Securities Trust for the year ended the 31st December, 1941.
There have been produced for our inspection the notes and other evidences of indebtedness, the collateral securities and the certificate of the special
depository, as set out in Schedule A.1 attached hereto.

We certify that, in our opinion, the above balance sheet is properly drawn up so as to exhibit a true and correct view of the accounts of the trust as at
the 31st December, 1941, in accordance with the provisions of The Canadian National Railways Capital Revision Act, 1937.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

10TH MARCH, 1942.

LIABILITIES

Capital Stock Owned by His Majesty—
5,000,000 shares of no par value capital
stock, having an initial stated value of \$ 270,037,437 88
Plus: Cash Surplus of Canadian
National Railway System:—Year 1941. 4,016,326 74
Less: Capital net losses of the Cana-
dian National Railway System subse-
quent to 1st January, 1937—not reim-
bursed by His Majesty:—
To 31st December, 1940 \$ 4,330,832 26
Year 1941..... 2,439,913 04

6,770,745 30

\$ 267,283,019 32

This is exactly the same as last year. There is no change in the schedule attached to this report from last year.

The CHAIRMAN: Then there is no need of reading it. You have heard the report; is there any discussion?

Mr. HAZEN: May I ask about the Niagara Falls city lines? It is described as 1.20 miles and valued at over \$329,000. What does that represent?

Mr. VAUGHAN: It is an electric line we had in Niagara Falls.

Mr. HAZEN: Is there anything beside the line? If that is only the line it seems a large amount for that small mileage.

Mr. VAUGHAN: There was some property there and the line, also a terminal station.

Mr. HANSON: Was there nothing realized on that? Was there nothing saved out of that when you abandoned it?

Mr. VAUGHAN: That is the net amount. There was some salvage. The salvage was \$291,886.51; leaving \$329,214.79.

The CHAIRMAN: Is there any further discussion; if not the motion to carry the report will be in order.

Mr. GRAY: I move the report be adopted.

Mr. McCULLOCH: I second it.

Motion agreed to.

The CHAIRMAN: We shall now start on the budget.

Mr. ARMSTRONG: This is the budget of the Canadian National Railway system for the year 1942.

CANADIAN NATIONAL RAILWAYS

(All-Inclusive System)

BUDGET FOR YEAR 1942

SUMMARY

	Reference Page	Amount	Total
Net Cash Surplus on Income Account:			
Canadian National Railways.....	2		\$ 5,000,000
Capital Expenditures	3	\$ 9,162,000	
Acquisition of Securities.....	4	3,403,000	
Retirement of Maturing Capital Obligations:			
Including Sinking Fund and Equipment			
Principal Payments	5	9,795,000	
Total Budget			\$22,360,000
Statutory Authorization:			
Trans-Canada Air Lines:			
Chapter 43, Statutes of Canada, 1937	4		\$ 1,250,000

Montreal, April 24, 1942.

CANADIAN NATIONAL RAILWAYS

(All-Inclusive System)

BUDGET FOR YEAR 1942

Net Cash Surplus on Income Account—

	Amount
Operating Revenues, excluding 20 per cent Contribution, M.F.R. Act.....	\$ 348,090,000
Contribution from Government under M.F.R. Act (20 per cent).....	3,510,000
Government Share of Operating Account, P.E.I. Car Ferry and Terminals....	400,000
Total Operating Revenues.....	352,000,000
Operating Expenses	281,000,000
Net Revenue from Railway Operation.....	71,000,000
Other Income and Profit and Loss Requirements.....	14,108,000
Net Available for Interest.....	56,892,000

Interest Charges:—

Interest due Public on Long Term Debt.....	43,855,000
Interest on Dominion Government Loans for Capital and Refunding.....	8,037,000
Total Interest Charges.....	51,892,000
Estimated Net Cash Surplus on Income Account.....	5,000,000

Mr. MAYBANK: Before you get into a split-up of the estimated capital expenditure I should like a little more explanation of this \$14 million item, "Other income and profit and loss requirements." How is that made up?

Mr. ARMSTRONG: That is made up of a considerable number of accounts, including taxes, rent from equipment, rent for equipment, income from lease of road, income from funded securities, miscellaneous income, miscellaneous rents, results of separately operated properties—

Mr. MAYBANK: Quite a conglomeration ending finally in \$14 million.

Mr. ARMSTRONG: That is correct; it is the net debit figure of a large number of credits and debits.

Mr. MAYBANK: All right.

Mr. ARMSTRONG: The total of general additions and betterments is \$16,210,000.

CANADIAN NATIONAL RAILWAYS

BUDGET FOR YEAR 1942

ESTIMATED CAPITAL EXPENDITURES

General Additions and Betterments, less Retirements—

Atlantic Region	\$1,605,887
Central Region	4,716,179
Western Region	2,509,062
Grand Trunk Western Railroad Company.....	812,924
Central Vermont Railway, Inc.	110,867
Hotels	83,652
Montreal Terminals Development	1,900,000
Prince Edward Island Car Ferry and Terminals	160,500
Subsidiary Companies	75,410
General, including additions and betterments to equipment.....	4,235,519
	<u>\$16,210,000</u>

The CHAIRMAN: You jumped very rapidly through that list, Mr. Armstrong. I had an idea the committee might wish to interrogate you on general conditions and betterments because these are rather important matters, I should say.

Mr. McCULLOCH: I notice here an item, "Atlantic region, \$1,605,887." What is intended to be done on that division?

Mr. ARMSTRONG: There is a large number of items included in that, Mr. McCulloch. We might give you—

Mr. McCULLOCH: Just the principal ones.

Mr. ARMSTRONG: I would say rail, track fastenings and ballast make up a large amount, siding extensions and—

Mr. McCULLOCH: That is all right.

Mr. ARMSTRONG: Many items of improvements.

Mr. McCULLOCH: I see an item then, "Prince Edward Island Car Ferry and Terminals, \$160,500."

Mr. ARMSTRONG: That is principally the changing over from coal to oil.

Mr. McCULLOCH: That is a bad idea.

Mr. VAUGHAN: There are other items there as well. They are putting housing and cabin accommodation on the top deck, and generally fixing up the old ferry boat that takes the place of the *Charlottetown* that was.

Mr. EMMERSON: Would that come in in 1942? Was not that in last year, that change over from coal to oil?

Mr. VAUGHAN: It was just started the end of last year; practically all the accounts will come in in 1942.

The CHAIRMAN: The item with regard to the Montreal terminals development, \$1,900,000, I suppose that item will clean that matter up pretty well?

Mr. VAUGHAN: That is the balance of the capital account we expect to have to expend.

Mr. HANSON: Does that item for hotels cover deficits?

Mr. VAUGHAN: No; they will be capital expenditures of one kind and another. It is a multitude of small items for various hotels.

Mr. McCULLOCH: Do you intend to purchase 4,000 box cars?

Mr. VAUGHAN: Yes, sir.

Mr. McCULLOCH: I suppose a good many of those are on order now?

Mr. VAUGHAN: Yes, they are; we have committed ourselves for practically all of those cars.

Mr. McCULLOCH: Nine hundred and fifty, I think, for the Eastern Car?

Mr. VAUGHAN: The Eastern Car Company will get 900 of the box cars and 250 of the hopper cars, or a total of 1,150.

Mr. McCULLOCH: Roughly, what would that amount to in dollars and cents?

Mr. VAUGHAN: I think we have that here. I will look it up for you.

Mr. NICHOLSON: Have these 81 second-hand all-steel passenger cars been delivered?

Mr. VAUGHAN: No, they have not all been delivered; some of them have been delivered and the balance will be delivered very shortly.

Mr. MAYBANK: How near is the \$1,900,000 for Montreal terminals coming to finality in the expenditures there?

Mr. VAUGHAN: We expect that to be the final capital amount required to finish the terminal.

Mr. MAYBANK: You will be in there soon?

Mr. VAUGHAN: We expect to be in late in the fall.

Mr. NICHOLSON: All of the necessary materials are available, are they?

Mr. VAUGHAN: Yes, sir.

Mr. DONNELLY: What do you mean by these second-hand cars?

Mr. VAUGHAN: Those second-hand cars were purchased from the Pullman Company, Chicago, and we bought them at a very reasonable figure.

Mr. HANSON: With respect to betterment for western lines; is there any item there for the Jasper-Prince Rupert branch, the northern line?

Mr. VAUGHAN: I think there are some small items. There is a contingent fund of a quarter of a million dollars for the work on that line.

Mr. McCULLOCH: What is the value of these cars?

Mr. VAUGHAN: It would be approximately \$5,000,000.

Mr. BRADETTE: What would be the estimated cost of these locomotives?

Mr. VAUGHAN: In the neighbourhood of \$165,000 each.

Mr. BRADETTE: And the box cars, how much would they cost?

Mr. VAUGHAN: They would cost in the neighbourhood of \$3,800 each, or thereabouts.

Mr. SANDERSON: Are they made in Canada?

Mr. VAUGHAN: The box cars are made entirely in Canada.

Mr. NICHOLSON: You are using a number of oil electric locomotives on some parts of the system. I understand they are quite economical. Would it be possible to increase the number of them to provide better accommodation on lines where bus traffic is now being used?

Mr. VAUGHAN: I do not think it would be possible to get any more at the present time. Diesel engines are very difficult to obtain at the present time. But I would not be surprised after the war if we were to find it economical to acquire a number of them.

Mr. NICHOLSON: Have they been operating much?

Mr. VAUGHAN: Yes, they have.

The CHAIRMAN: Proceed, Mr. Armstrong.

Mr. ARMSTRONG: Page 3 continues:

Equipment Purchases—100% of Cost

Canadian National Railways—

81 Second-hand all-steel passenger carrying cars (to be converted into colonist cars and first-class non air-conditioned coaches).

Grand Trunk Western Railroad Company—

200 Box Cars

Total estimated cost, including Sales Tax, Inspection

Charges and Cost of Conversion.....\$ 3,208,000

Purchase of Equipment under Hire-Purchase Agreement with the Dominion Government. Repayment for this equipment is expected to be spread over a period of years commencing in 1943.

No cash required in 1942:—

Canadian National Railways—

25 Northern type locomotives

4,000 Box Cars

100 Overhead Refrigerator Cars

250 70-ton Triple Hopper Bottom Cars

10 Baggage Cars

Total estimated Cost, including Sales Tax and Inspection

Charges, \$25,168,000.

Equipment Retirements 2,056,000

Available from Reserves for Depreciation and Debt Discount

Amortization 8,200,000

\$ 9,162,000

Mr. EMMERSON: What is that northern type of locomotive?

Mr. WATSON: The Northern type practically duplicates the engines numbered in the 6100 series.

Mr. McCULLOCH: What is the value of those engines?

Mr. VAUGHAN: As I said a little while ago, Mr. McCulloch, we will not know the final cost until they are finished; but the contract price is approximately \$163,000.

Mr. DONNELLY: Is this about the usual amount for annual new equipment?

Mr. VAUGHAN: No, this is more than usual. We have not purchased equipment in any quantity for some time. We did buy some last year.

Mr. DONNELLY: What has been the average?

Mr. VAUGHAN: Some years we have not purchased any at all, particularly during the years of the depression. As a matter of fact even with this new equipment we will have less equipment than we had in use in 1928, the last peak year; and we are handling considerably more business now than we did then. In the meantime there have been a good many cars destroyed and retired, so that we have many less locomotives and cars than we had in 1928.

The CHAIRMAN: All right, let us proceed.

Mr. ARMSTRONG: Page 4 shows the acquisition of securities for 1942:

ACQUISITION OF SECURITIES

Toronto Terminals Railway Company—

Joint with the Canadian Pacific Railway Company Provision for Canadian National Railways' Proportion of Capital Expenditures of the Toronto Terminals Railway Company, which may be required in 1942.....\$	100,000
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Mr. DONNELLY: Do you pay that much in each year?

Mr. ARMSTRONG: Not necessarily.

Northern Alberta Railways Company—

Joint with the Canadian Pacific Railway Company Provision for Canadian National Railways' Proportion of Capital Expenditures of the Northern Alberta Railways Company, which may be required in 1942	\$ 200,000
Requirement for redemption of 4% Debenture Stock of Edmonton, Dunvegan and British Columbia Railway, due February 16, 1942, Total, \$6,429,451. C.N.R. Proportion 50%.....	3,214,726
Total C.N.R. Proportion.....\$	3,414,726
	(say) \$ 3,415,000

Chicago and Western Indiana Railroad Company—

Advance to be made to the Chicago and Western Indiana Railroad Company, under terms of Fourth Supplemental Indenture dated as of March 1, 1936, between that Company and the Bankers Trust Company	138,000
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Detroit and Toledo Shore Line Railroad—

Reduction in Ledger Value of Capital Stock, by appli- cation of amount of special dividends to be re- ceived during 1942.....	250,000
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Grand Total\$ 3,403,000

Statutory authorizations—

Trans-Canada Air Lines

Provision for contribution by Canadian National
Railways towards purchase of balance of Capital
Stock of Trans-Canada Air Lines, authorized under

Chapter 43, Statutes of Canada 1937:—

Total Capital Stock Authorized.....\$	5,000,000
Amount already acquired.....	3,750,000
Balance	\$ 1,250,000

Page 5 shows the retirement of maturing capital obligations, sinking fund and equipment principal payments, as follows:

Due date 1942	Issue	
April 16—	Payment under Hire-Purchase Agreement, 1938.....	\$ 517,173 07
April 18—	Payment under Hire-Purchase Agreement, 1939.....	991,968 32
May 1—	Canadian National Railway Company 4½% Equipment Trust Series "J" Certificates	1,000,000 00
May 1—	Canadian National Railway Company 5% Equipment Trust Series "K" Certificates	1,200,000 00
June 1—	Canadian National Railway Company 4½% Equipment Trust Series "L" Certificates	1,050,000 00
June 1—	Grand Trunk Western Railroad Equipment Trust, 1941.....	285,000 00
July 1—	Canadian National Railway Company 2% 1927 Guaranteed Debenture Stock	1,008,210 40
July 1—	Canadian National Railway Company 2½% Equipment Trust Series "Q" Certificates	650,000 00
July 1—	Wellington, Grey and Bruce Railway Company 7% Bonds.....	6,813 33
August 1—	Canadian National Railway Company 2½% Equipment Trust Series "O" Certificates	1,430,000 00
September 15—	Canadian National Railway Company 2¾% Equipment Trust Series "P" 1938	500,000 00
October 1—	St. John and Quebec Railway Company 4% Stock	27,279 77
December 1—	Grand Trunk Western Railroad Equipment Trust, 1941.....	285,000 00
December 14—	Grand Trunk Western Railroad Equipment Trust, 1929.....	283,000 00
December 14—	Central Vermont Railway, Inc., Equipment Trust, 1929.....	124,000 00
December 31—	Indebtedness to State of Michigan <i>re</i> Woodward Avenue.....	430,000 00
1943		
January 1—	Wellington, Grey and Bruce Railway Company 7% Bonds.....	6,813 33
	Grand total	\$9,795,258 22
	(Say)	\$9,795,000 00

NOTE.—There has not been included in the above statement the semi-annual Sinking Fund Payments of \$250,000 each, due July 1, 1942, and January 1, 1943, for Canadian Northern Railway Company 6½% Sinking Fund Bonds, as these amounts, in the judgment of the Management, will not be required owing to the improbability of our being able to use same in accordance with the terms of the Trust Agreement.

Mr. GRAY: How long do you go on paying the Wellington, Grey and Bruce Railway Company 7 per cent bonds?

Mr. COOPER: Those bonds come under the present vesting orders, and in all probability they will be cleared up this year.

Mr. DONNELLY: Good.

Mr. NICHOLSON: How long have we been paying this 7 per cent?

Mr. COOPER: Not less than 60 years.

Mr. VAUGHAN: Too long to remember.

The CHAIRMAN: All right, next.

Mr. ARMSTRONG: That is the end of the budget.

The CHAIRMAN: That is the end of your budget, all right; well then, have you any discussion? If not, let us adopt this budget and get going.

On motion by Mr. Donnelly, seconded by Mr. Sanderson, the budget was adopted.

The CHAIRMAN: Now, the Hon. Mr. Macdonald is with us in connection with some testimony that the committee wished him to give. Are you ready for him to make his statement?

Mr. GRAY: Might I just interrupt one second before Mr. Macdonald starts in? We have already passed the items of the estimates Nos. 400, 401, 410 and 411. I believe you require a separate motion in order to report these items to the house, and I would so move; that the committee report the estimates that I have enumerated to the house as passed by this committee.

Motion agreed to.

Hon. Mr. MACDONALD: Last evening, gentlemen, certain questions were put at the end of my statement. As I have noted them down the first was whether the Canadian National Railway had to reimburse or recoup the C.P.R. with respect to certain fares collected at Halifax. I think the railways promised to answer that. It is not a matter within my knowledge.

The second point was as to whether the naval regulation which I read last night, regulation No. 281, stating that either Canadian National or Canadian Pacific Railway should be used according to the convenience and best interests of the services; whether that regulation conflicted in any way with the order made by the Naval Secretary, Captain Cosette. I have a note on that here. It is to the effect that it was not intended by Captain Cosette that his order should in any way do so, and that is all he could do, he could not actually over-ride Naval Regulations; but that his object was to clarify as far as possible the situation; and this order or instruction was based on the finding of a conference attended by representatives of the railways in the persons of Mr. Sauve for the Canadian Pacific and Mr. Basil Humphrey for the Canadian National, and Captain Brock representing the Department of Naval Service. The result of that conference, so I am informed by Captain Brock, was a recommendation to the effect that the division suggested in Captain Cosette's order should be put into effect; namely, that transportation west of Montreal with the exception of transportation to and from Edmonton and Saskatoon should be over the Canadian Pacific, and transportation east of Montreal should be by Canadian National. The results of that operation in so far as that appeared last year I gave to you last night, and I think I told you that the Canadian National in the transportation of freight and express has received from us \$1,247,000 in round figures and the Canadian Pacific \$557,000.

Another question was as to whether the routing of freight by the Department of Naval Services was done in the same way as passenger traffic. I am informed by Mr. Coulter, head of the freight department of the Navy, that he applies regulation 281 in this way: He says that the idea is to get the freight moved as quickly as possible and that he does not care over which railway it flows.

A third question was as to whether men on leave were free to go on any railway they might choose. The answer to that is yes, as was intimated last night. Men on leave can select any railway they wish to go on and so can men travelling individually. The regulations to which reference has been made applied to men moving in drafts, fairly large bodies of men moving from one coach to the other in drafts.

Mr. DONNELLY: With regard to the men on leave you say they are allowed to go whichever way they like when they are paying their own expenses or in all cases whether the government pays the expenses or not?

Hon. Mr. MACDONALD: In all cases men on leave select their own route. The regulations refer to drafts of men, considerable bodies of men.

The CHAIRMAN: You said that when individuals were travelling they also could choose their own way of travel.

Hon. Mr. MACDONALD: Yes, they can choose their own way.

Mr. NICHOLSON: I asked another question: if consideration could be given to withdrawing the orders by Captain Cosette, and having this order as the only one that would be given.

Hon. Mr. MACDONALD: Consideration could be given to that. The only trouble there is that the representatives of the railways have agreed to it and presumably it is satisfactory to the railroads, and I do not know whether we would want to go into the matter unless the railroads took some objection now and asked us to go into it again. As far as I know there has been no great complaint from the Naval Service at any rate to the manner in which the order or regulation operates. Some mention was made of the problem at Montreal of moving men from one station to another, but very often the drafts

in Montreal move around the city a good deal and they apparently do not regard it as any great hardship if they have to move from Windsor station to Bonaventure station to take another train. That is the information I was able to gather to date. I do not know what the view of the committee is, Mr. Chairman, as to repealing that arrangement which has been made. In the absence of some proof that it is unsatisfactory to both railroads I think it would, perhaps, be unwise to disturb it.

Mr. NICHOLSON: My understanding from the railway officials last night was that this arrangement was not very satisfactory, according to the C.N.R.

Mr. VAUGHAN: I think we were under a misapprehension yesterday when Mr. Macdonald was mentioning this matter as to what this order covered. I think there was some agreement between the railways and the Naval Department. I believe Mr. Fraser has our file and can speak about that situation. If there is an order out in respect to the routing of freight which says that whichever road can give the best service will be used, I do not believe there is any doubt but that 90 per cent of the business would go via the C.N.R. under those conditions.

Hon. Mr. MACDONALD: You are doing very well on the freight.

Mr. MAYBANK: Let us ask Mr. Fraser to enlarge on that if he can. Mr. Vaughan says that the man best qualified on the C.N.R. to answer that is Mr. Fraser; let us see if he has anything to add.

The CHAIRMAN: Do you wish to hear from Mr. Fraser?

Mr. MAYBANK: If he can add anything to that statement.

Mr. FRASER: Mr. Chairman, I left the impression last night quite unwittingly that there was no agreement as far as I knew, and that was correct, but I have made inquiries and I find that this is the situation: Captain Brock sent for representatives of the Canadian National and the Canadian Pacific and took them into conference and my information is—and I think it is correct—that he told the representatives that it was his duty to arrange the best division of this business he could equally between the two railroads. He gave some reasons why.

Mr. HAZEN: Were you there?

Mr. FRASER: I was not.

Mr. HAZEN: Then this is hearsay.

Mr. FRASER: I have said so. I have said I was informed. It is not a matter of great moment to me whether I tell what was said or not; if you wish to know I shall be glad to give the information. I am told that was the situation, that they were told the business was to be divided equally or as nearly equal as possible between the two railroads, and Captain Brock proposed what was in effect adopted as being the method that would suit his purposes the best, and on that understanding we accepted it. Now, I do not know that there is any great quarrel with that. Frankly, I think Captain Brock made a pretty fair point. One of his main difficulties as reported to me was this—again this is hearsay—that there are concentrations of the R.C.N.V.R. boys at various places and they move fairly regularly month by month from the territory west of Montreal and as a whole, but particularly in western territory the largest concentrations were at places like Calgary on the C.P.R. In any event, it was very advantageous to his department to move those boys by one line and not have one small party on one line and another small party on another line, because those parties are conducted and if part of the movement was on one line and part on another it would mean there would have to be a conducting officer on each train which would be additional expense. So under those circumstances we thought the best provision we could make was to take the business east of Montreal, having in mind that the business in the territory from Toronto

to Montreal is pooled anyway. That is how the agreement was made. The only point I am making and the only point I have tried to make before the committee is that Captain Brock felt that his instructions were such that he should reach as nearly as possible an equal division of the business between the two lines. Now, I am not complaining about that particular order at the moment. If we do complain about it, I agree with the minister that we will take it up with the proper authority. That is the situation.

If you will bear with me for one moment I would like to say this also to prevent any possible misapprehension of my position or the position of the railways: in anything I have said I am not offering the slightest criticism of any department or any officer concerning the division of the traffic; I am only offering a criticism of the conditions under which he sometimes has to work with the instructions he has.

Mr. McCULLOCH: Why make the distribution equal when there are so many more miles of C.N.R. track and so many more men working on the C.N.R.? Should it not be on a 60-40 basis?

Mr. FRASER: I do not know whether I made myself clear. The reason the department gave was that it was a great advantage to them to deal with one railway for as long a distance as they could, picking people up here and there, and probably by the time an eastbound train got to Montreal there would be quite a substantial crowd. They could gather these men all the way along the line and have them on one train all the way through and have only one conducting officer, and the larger proportion of the men who are so moving are moving from points closer to the Canadian Pacific than the Canadian National. That is the case, and at the moment I am not prepared to quarrel with it.

Mr. NICHOLSON: I understood the ministers who were here yesterday indicated that they would give favourable consideration to recommending to council that any orders that had been given suggesting that traffic should be divided on a 50-50 basis might be withdrawn, and I think the minister might give further consideration to having the order in the blue book as the only order that will be issued for his department. I mentioned last night that I had met a number of naval officers travelling across the country as I travelled back and forth to Ottawa, and some of those men are loyal to the Canadian National Railways, and I have met them on the C.P.R. trains because I travel by the most convenient trains always, and they have asked why it is necessary for them to transfer their baggage at Montreal while travelling from Halifax to Winnipeg. It seems to me that in a movement from Halifax to Winnipeg the most sensible way to go would be to go by C.N.R., and if the naval authorities were instructed to move their men as quickly and as economically as possible that would be a fairly satisfactory way to do it and not have them bound to travel C.N.R. to Montreal and C.P.R. from Montreal to Winnipeg.

The CHAIRMAN: That is a matter which should come into the deliberations of this committee. Are we through with the witness?

Mr. NICHOLSON: I think the witnesses gave us some statement of their policy yesterday.

The CHAIRMAN: You could hardly expect a witness to give us any undertaking in this committee tonight.

Hon. Mr. MACDONALD: Are the men to whom you refer travelling by themselves or are they men in charge of drafts?

Mr. NICHOLSON: Men travelling by themselves.

Hon. Mr. MACDONALD: I think it is quite all right for them to go the other way. A man gets a simple warrant and he can travel any way he likes; the regulations apply only to drafts.

Mr. NICHOLSON: How about an officer travelling?

Hon. Mr. MACDONALD: He is given a general railway warrant which is good anywhere and he can select his own route to travel as I understand.

Mr. EMMERSON: Does not that warrant give a routing and is it not addressed to a certain form of transportation?

Hon. Mr. MACDONALD: I do not think so. I think they are given a general warrant and the man inserts in there the road which he is travelling over. Perhaps Mr. Fraser would tell you about that.

Mr. FRASER: I think the situation is this: any man travelling on leave or on furlough chooses any road he likes, but the department does reserve the right to route an officer or an individual, if they think fit, who is travelling on duty on a warrant issued. I think they reserve that right. Now, in practice the Department might leave it to the man, but it is understood that where there is a controlled movement the Department may and usually does issue the warrant to a named railway; but in any case where the man is paying for himself I understand he is free to do as he likes.

Mr. LOCKHART: I would like to ask the minister what would be the average number of men by and large included in movements or in groups from Halifax-west—would it be 50 or 100 approximately?

Hon. Mr. MACDONALD: You mean in a year?

Mr. LOCKHART: No; do they travel in groups of 50 or in groups of 100?

Hon. Mr. MACDONALD: Oh, it would vary. Some groups contain 500 and some 100. It would be difficult to say definitely without looking into the matter.

Mr. LOCKHART: Let us say the number would be 100, Mr. Chairman. What would be the amount of baggage that 100 men would carry in a movement of that kind?

Hon. Mr. MACDONALD: They carry their kit, their bag which they string on their shoulders.

Mr. LOCKHART: Reference has been to the transfer of baggage; does that baggage just include a kitbag?

Hon. Mr. MACDONALD: Yes, he will carry it over his arm or on his shoulder.

Mr. NICHOLSON: How about an officer being transferred from Halifax to Vancouver; is he not allowed to check his stuff?

Mr. EMMERSON: An officer does not carry his bag, he is not permitted to, is he?

Hon. Mr. MACDONALD: He would not carry a kitbag, no.

Mr. NICHOLSON: Is an officer travelling from Halifax to Vancouver not allowed to check his personal belongings?

Hon. Mr. MACDONALD: An officer? Yes.

Mr. NICHOLSON: Or ratings?

Hon. Mr. MACDONALD: Well, I suppose if there is nothing against it, he can check it in the baggage car. But they always have their kits with them. I have never seen them travel without their kits under their arms. It is a small bag something like the soldier's bag.

Mr. NICHOLSON: Yes, I am familiar with it. Those are the men who complain in the smoking cars and ask me why it is necessary for them to go by this route.

Hon. Mr. MACDONALD: You mean the ordinary men—the ratings?

Mr. NICHOLSON: Yes.

Hon. Mr. MACDONALD: Well, I do not know. I would say if that is the greatest hardship that has to be endured in the lives of sailors, they will be all right.

Mr. NICHOLSON: It is not a question of hardship. But we are discussing the distribution of traffic.

Hon. Mr. MACDONALD: Do you object to the present distribution from the point of view of the C.N.R.? It seems to me to be quite generous to the C.N.R., but if you want to have the thing opened up, I am quite willing to open it up. The proportion is more than two to one under the present arrangement, but if the committee wants to go into it and make it 60-40, I am prepared to consider that.

Mr. MAYBANK: I think the point of the C.N.R.—with which I am personally in agreement—is not 60-40 or 65-35. It is just to take off the restriction altogether and let the traffic move under that rule which you read first. That is a very fair statement of the position generally—not necessarily for naval matters only, but for everything else.

Hon. Mr. MACDONALD: That it move over the road that serves the navy best?

Mr. MAYBANK: Correct—whichever gives the best service. If the C.N.R. lose by that, it is because they do not give such good service, and vice versa.

Hon. Mr. MACDONALD: It could be done, yes.

Mr. MAYBANK: I mean, there cannot be any objection from the naval point of view to that, can there—route the traffic the way it suits you best?

Hon. Mr. MACDONALD: Quite right. I think that we would prefer, however, to have the thing separate. I think that is the whole purpose behind this order. That is, you make a decision that all traffic, say, moving from Winnipeg or Calgary to the coast will go C.P.R. They get accustomed to that route and so on. They prefer to move men over it. That is probably what lay behind the order in the first place. But we can strike out the consent order very easily and say “just follow the regulations.” Probably the result would be just about the same. They will probably follow this practice anyhow, the practice now existing.

Mr. MAYBANK: Captain Brock set out with the idea in his mind that they have got to make a 50-50 division, that the C.P.R. has to make 50 per cent. That was evidently in Captain Brock’s mind.

Hon. Mr. MACDONALD: If he did so, it has not worked out that way.

Mr. MAYBANK: I think there is not any evidence very much one way or the other on that, Mr. Macdonald. Your figure of a million odd and \$500,000 only means that is where the money landed in the first place. It does not mean that is where it stays.

Hon. Mr. MACDONALD: I thought the railways were going to break that down.

Mr. MAYBANK: They were to do so, but at any rate we have not any information yet.

Mr. VAUGHAN: That will take some time. It will be a big job.

Mr. MAYBANK: That is what I thought last night, that you could not break that down.

The CHAIRMAN: Gentlemen, I am inclined to think that this discussion is a little out of order. We brought Mr. Macdonald here to give us certain testimony and he has given it. It is now for us to deliberate on what we have.

Mr. SHAW: Mr. Chairman, I believe I was the one to introduce the question yesterday of men on leave being free to choose whatever routes they wished. When the minister answered the question first this evening, I felt that he was quite positive that they were free. But later on he more or less modified his language and used the term, “I believe”. Then Mr. Fraser used the expression, “I think”, which leaves me more or less unanswered yet. I should like to know definitely whether they are free to travel whichever way they desire or travel part way on one line of rail and part way on another?

Hon. Mr. MACDONALD: I think Mr. Fraser's statement—although he can speak for himself—was that with regard to men on duty, the service reserved the right—and naturally it would reserve the right—to say to the man, "You are going on leave and you are going C.N. or C.P." They reserve that right.

Mr. SHAW: That is quite understandable, yes.

Hon. Mr. MACDONALD: But I do not think that either of us said that, as to men on leave, there was any such reservation on routing at all. I think we said that men on leave are perfectly free, because they are contributing part of the cost of that transportation and have consequently the right to select their own railroad of travel. But I shall be quite glad, Mr. Chairman, if the Committee has any recommendations to make whatever on this point, to fully consider them and act on them if they can at all be worked out.

The CHAIRMAN: Gentlemen, I imagine that you are through with this inquiry. I do not know that we need to delay Mr. Macdonald any longer. I must advise the committee, or remind them, that we have to meet again tomorrow because we have indicated to someone who has telegraphed from the west that we would do so.

Mr. McCULLOCH: Tomorrow morning or tomorrow afternoon?

After discussion, the committee adjourned at 9.55 p.m. to meet again on May 6, at 10.00 a.m.

ADDENDUM

Report of the debate held on 4th May, 1942, before the Standing Committee on Railways and Shipping owned, operated and controlled by the government on the following motions of Mr. Shaw, a member of the said Committee:

- (1) That the members of the Board of Transport Commissioners who sat on the Board at the hearing of the case of the abandonment of 53.4 miles between Forth (near Red Deer) and Ullin, Alberta, and whose decision had been rendered in recent days, both assenting and dissenting members, be called to appear before the Committee on Railways and Shipping, in order to question them in connection with that decision.
- (2) That the C.N.R. members of the Joint Committee of the Canadian National Railway System and the Canadian Pacific Railway System, who had occupied on behalf of the Joint Committee before the Board of Transport Commissioners, be called before the Committee for examination.

The CHAIRMAN: Now, I think we had better clear up this matter which was raised by Mr. Shaw.

Mr. SHAW: Mr. Chairman, when we were discussing this matter before I asked if any of the C.N.R. members of the Joint Cooperative Committee who made application or who with similar officials of the C.P.R. made joint application are here today.

Mr. VAUGHAN: None of them is here.

Mr. SHAW: The matter I have in mind, Mr. Chairman, as I pointed out last Friday, came as a consequence of a notation on page 7 that "during the year application was made to the board jointly by the Canadian National and Canadian Pacific for permission to abandon 6.5 miles of the Canadian National and 53.4 of the Canadian Pacific between Forth, near Red Deer, and Ullin, Alberta; and decision is pending." I pointed out on Friday that a judgment had been rendered. Of the three members, two upheld the application, and

the third, Mr. Cross, the Chief Commissioner, voted against the application for right to abandon. Now, the first matter I should like to bring to the attention of the Committee is this: In the minority reports for judgment handed down by Mr. Cross he states this, on page 26: "Since the amendment was made to the Railway Act in 1933, chapter 47, by inserting section 165(a) a considerable number of applications has been considered by the board. In the consideration of such applications the board has laid down as a guiding principle that the issue in each case where abandonment is sought resolves itself into a question of whether the loss and inconvenience to the public consequent upon the abandonment outweigh the burden that continued operation of the railway line involved would impose upon the railway company."

Then he makes reference to a case. "Canadian National Railways vs. Tweed, 1935," and one or two other references. Now, he goes on: "In most of the applications for abandonment which have come before the board the loss sustained by the railway company arising from the operation of a particular line of railway has been manifest and in some cases quite serious." Now, this is significant. "In the present case it has not been shown or even suggested that the National company line is operating at a loss. The applicants did not choose to offer any evidence in regard thereto. The Pacific company's branch line for the three years for which figures were given shows an average yearly operating profit of \$71,000. The ground on which the application is based is that the proposed abandonments constitute part of the co-operative measure already referred to which the two companies propose to enter into with a view of effecting economies as directed under section 16 of the Canadian National-Canadian Pacific Act."

Now, the second point there, Mr. Chairman, is this, that apparently—I may be wrong—but apparently on the operation of those two lines of railway which had operated over twenty-five years no losses were sustained on the system. The C.N.R. offered no evidence in that regard and the C.P.R. admitted a profit, an average yearly profit of \$71,000. Now, as I pointed out on Friday, and as I would like to point out again, the right to abandon the line of rail, or at least part of the one line and part of the other, places upon the people of the communities affected, including the farmers and business people who operate businesses in those towns, in my humble judgment, a burden which far offsets the meagre estimated \$58,000 which is estimated to be the joint saving of the two roads by the abandonment. Now, when this line of rail is abandoned some of our towns, one at least, is going to be nine miles further from the new line of rail than it is at the present time, another will be $7\frac{1}{2}$ miles further, another will be $2\frac{1}{2}$ miles, another will be 7 miles, another will be $6\frac{1}{2}$ miles and another will be $6\frac{1}{2}$ miles. May I say this at the start: It is a well known fact that when the Canadian Pacific Railway contemplated the building of a line into that country—and I am not aiming to justify their action in running a race with the other company—they were subsidized by being given tracts of land which they sold to farmers with the understanding that that line of rail would operate.

The land values were necessarily placed higher as a consequence of the fact that a railway was promised to those who went in between 1901 and 1906. It was promised it would continue to those who purchased land up to as late as 1941. Now those farmers who purchased land since 1934 in there were not told by the Canadian Pacific or the Canadian National that they contemplated taking that line up if they got permission, and they contemplated it ever since 1934. Another thing, the Alberta—

The CHAIRMAN: Just a moment, Mr. Shaw. You are offering this in support of your motion; is that the idea?

Mr. SHAW: Right.

Mr. DONNELLY: We are not here to listen to argument.

The CHAIRMAN: No, but we have a motion before this committee and I suppose he is speaking to the motion. That is the only reason I can see for this argument.

Mr. DONNELLY: I appreciate that, but I do not see—

The CHAIRMAN: I do not believe it is necessary; however, we have a motion before the committee which was allowed to stand over, and the motion will be put. I believe the debate he is offering is in support of the motion.

Mr. SHAW: Thank you, Mr. Chairman. I just pointed out between 1934 and 1941 land was sold to those farmers in that area without any indication being given to these farmers that the railroad contemplated abandoning the line if it could secure permission; and I say it was contemplated ever since 1934.

Now, here is another thing. In 1937 the Alberta Pool Elevators built an elevator. I believe it was at Condor—I am not just sure of that—at a cost of \$15,000. They were not told that the railroad companies contemplated abandonment. I say in both these cases they broke faith with the people of those communities. I should like to give one more reference, Mr. Chairman, to the acres sold by the railroads to these farmers. There were 128,581 acres of land that can be cultivated, and approximately 9,323 acres of bush land. Not only did they sell land to the farmer, but they also sold town lots to people who built homes there and in many cases established businesses, all with the firm belief that the railroads would continue to function.

It is an important fact that the most important agricultural land in that area lies south of the Canadian Pacific line which they contemplate abandoning. North of the Canadian National line, which in turn runs north of the Canadian Pacific—

Mr. DONNELLY: How far are they apart?

Mr. SHAW: They vary as much as six or seven miles to approximately no distance. In one place, from the Rocky Mountains west they run over the same line of road for a short distance. I say that when you abandon the Canadian Pacific line you are taking the railroad away from the main agricultural areas west of Red Deer.

With respect to the taking away of these services it has been estimated, and all the commissioners agreed, I believe, that the cost of marketing wheat only would be increased by approximately \$17,000 to these farmers. Land values would be reduced by anywhere from \$1 to \$12 an acre. These people in that country send wheat to Calgary to be milled. Because of the increased distance they are going to have to pay approximately five cents per 100 pounds of grain more than they did before. Cattle shipped out of that area are going to have to go down to Drumheller, an added haulage of approximately 60 miles which, it is estimated, will cost them about \$9 a car more. With respect to cattle I may say that the extra cost of feeding and watering which will be necessitated as a consequence of the change will make up that amount.

West of Rocky Mountain House we have, I believe, three sawmills owned and operated by the Atlas Lumber Company. The Atlas Lumber Company, in turn, built lumber yards along the line of railroad. The Atlas Lumber Company estimated, and there was no evidence to prove they were incorrect in their conclusion, that it would cost them from \$5 to around \$15 a car more to ship their lumber out of there; and I believe they shipped approximately 500 cars last year, with the result, I think, they say, "We are going to have to close down our mills and take them out of that country and also close down our lumber yards."

I think you can readily appreciate the serious effect that is going to have upon that part of the country.

May I say another thing—

Mr. DONNELLY: Do you think it would have been better to abandon the Canadian National and allow the C.P.R. to run?

Mr. SHAW: Mr. Chairman, both systems have shown a profit. There must have been a reason for building them in the first place. Personally I see no justification for abandoning either one of them.

I say it is definitely breaking faith with the people and you are allowing our country to go backward instead of forward in so doing.

Mr. JACKMAN: May I ask Mr. Shaw where the evidence was given to show that the railroads intended to abandon these lines in 1934?

Mr. SHAW: The Judgment as handed down is here; it may take me just a moment to find it, but it is in here, Mr. Chairman. It is in the minority report handed down by the Chief Commissioner, Mr. J. A. Cross, and it will take me a little time to find it. It is in there and I shall find it and show it to you afterwards.

Now, Mr. Chairman, may I refer to another matter with regard to the road situation lying between the Canadian Pacific Railway line and the Canadian National Railway line. There we have one of the most difficult areas to travel over by car or truck that you could hope to find in any agricultural community. It has been estimated by engineers there that it would take as much as \$2,500 in each case to put those roads in running condition from the sites of the elevators that are going to have to be abandoned or dismantled to the sites of the new railroad and that means increased taxation for the people of those areas, on land which is necessarily going to depreciate in value.

I say that is unfair at this particular time with so many calls being made upon our people to suddenly have them faced with a situation like that. You are going to take away several thousand dollars—approximately \$13,000—in taxes away from those areas that have been paid there. When the municipalities find themselves without that revenue they are going to have to increase the taxation upon the people there in order to make it up and in order to carry on. I do not think there is any doubt about that at all.

Mr. Chairman, it is also said that approximately thirty men are going to be put out of work as the result of this line of road being abandoned. These thirty employees are on the railways. It might be all right for someone to say they can easily find other employment; but that is an expression that is easier said than carried out. In time some of these men may be given consideration because of their seniority rights; but I say "may." There is no guarantee anywhere that they will be given that consideration. The evidence submitted stated "may."

Mr. LOCKHART: Do any of them own their own homes?

Mr. SHAW: I am not sure, as far as they are concerned, but some of them have been there a good period of time. I anticipate undoubtedly they would own their own homes. I do not care to take too much of the time of this committee, Mr. Chairman, but I should like to say this, the grain that has gone out over that Canadian Pacific Railway line from these farmers who farmed south of it, the cattle and other products—and after all this is a very fine mixed farming area—are going to have to go out by truck, providing that tires and gasoline can be procured. Let me read what the Chief Commissioner, Mr. Cross, said in this regard: "There is another matter of which, I think, we should take notice. That is the changing conditions created by the war, now grown into a world conflict, and in which Canada is an active participant. Already we have a material curtailment in gasoline for use in private motor cars, and almost total restriction in respect to rubber (tires) for renewal or repair purposes on such vehicles. The manufacture of automobiles for private use is entirely or almost entirely forbidden. The situation in respect to motor trucks, buses and public-owned transport is, as yet, much less restricted. While one cannot safely predict the future, present indications point to more restricted use of motor transport. Very little was said of the necessity of the Pacific company line for passenger service, but for the reasons mentioned this may assume greater importance. From what

was stated at the hearing I am satisfied that because of the longer haul to the alternative shipping points a number of the farmers would require trucks to market their products. These they may be unable to procure."

Now, Mr. Chairman, apart from all the other things I have said, I think it ill becomes anybody to force, if it is a fair term, persons to utilize services of more trucks, more cars if they can get them, at a critical time like this when all of us have been told how we must conserve gasoline and rubber. I think that is an extremely important point.

Now the Post Office Department protested against the granting of this application because of this fact, as stated by Mr. Farren, Superintendent of the Postal Service for the Calgary district. In part he said: "At the present time the Post Office Department has a baggage car mail service on the Canadian Pacific and Canadian National, the Canadian Pacific between Red Deer and Rocky Mountain House, on the train frequency. At present Eckville and Rocky Mountain House get a daily service, one service by the Pacific Company and one by the National Company. The abandonment would reduce the service for these two points to one-half of what they are at present receiving." Rocky Mountain House has a population of approximately 1,000 people and it will lose mail service for three days of the week. There was no evidence to the contrary, I may say.

Now Mr. Farren of the Post Office Department goes on and states: "If the applications are granted it will be necessary for the Post Office to institute a mail stage service to the points that would be left without train service. This class of service is not, generally speaking, as satisfactory or regular at all seasons of the year. It would occasion some inconvenience to both the public concerned and the Department. Mail stage service is not new and the Post Office Department can be relied upon to see that, at least, a fairly reasonable service is provided to the communities." But I dare say the service will not be as satisfactory or nearly as satisfactory as it was before.

Mr. Chairman, I do not want to take up very much more time, but I do feel I have a responsibility in this regard. I do feel that these several thousands of people who went into that country in good faith and who are producing the very things that Canada requires to-day in the nature of foodstuffs and so forth, should not be forsaken at this time and allowed to slip back twenty-five years.

Mr. Cross also stated this: "How the public will be affected is one of the first matters for consideration when the Board is asked to approve the abandonment of the operation of a line of railway. Section 165A of the Railway Act and Section 2 (3) of the Canadian National-Canadian Pacific Act, 1933, place upon the Board the duty of approving or refusing such applications for abandonment, and in the performance of this duty the Board must have regard to the rights and interests involved, which include the public concerned, as well as the railway company." Then, after a few lines he goes on: "Having regard to all the facts and circumstances surrounding the applications I am unable to find that the burden which may be imposed upon the applicant companies through continued operation of their lines of railway in question will prove greater than the loss and inconvenience to be suffered by the public as a result of abandonment. I feel satisfied that the preponderance of loss and inconvenience would be on the public." That is the chief commissioner making that statement. He said:—

"The Pacific Company Branch Line is a profitable branch and it is not shown that the National Company Line is not also profitable. Such burden as the companies may suffer by refusal of the applications is that they will not have the benefit of the additional profit that would accrue from the anticipated saving. In any event, and in view of the conditions prevailing, the added burden to the community that would result from abandonment is, I consider, greater than it should be required to bear at this time."

That is exactly my contention, Mr. Chairman. It is the contention of thousands of other people, not only people who reside in that area but people who feel that these people are not being given just consideration. The information that I have put before the committee, Mr. Chairman, may have been put forward in a disjointed manner. Personally, as I said Friday, I wish to register the strongest possible objection against this particular course of action. I would ask the committee to support me in appealing to the Minister of Transport, and through him to the government—that may not be the proper method of procedure; I do not know—to have this action held up, at least until after the cessation of hostilities, and I say even after that, unless the company making the application can put up a stronger case than they have, in my judgment, made thus far.

Mr. LOCKHART: How many thousand people are served, did you say?

Mr. SHAW: I just used the term “several thousand”; and not only are the people living in there served but many thousands living outside of there are served by institutions which function in that area.

Hon. Mr. CARDIN: I sympathize very much with these views expressed by Mr. Shaw. I have a particular reason to sympathize with him in a matter of that kind, because in my own region, in my own constituency, lines have been abandoned by the C.N.R. with the result that a number of farmers have suffered very materially as a result of the abandonment of those lines. But the question has been brought before the Board of Transport Commissioners, which fulfils a judicial duty and which, I submit, Mr. Chairman, is quite beyond the powers and the jurisdiction of this present committee. When the Board of Transport Commissioners have rendered a decision, there is an appeal which can be made to council, meaning the government, by any party who is dissatisfied with the judgment rendered by that board. Presently there are several appeals of a similar character already pending before the government. My suggestion would be that the proper course to be followed would be for my friend, Mr. Shaw, and those interested in the same matter, to make an appeal. There is no special form provided for that. It can be written in any form of document.

Mr. SHAW: Would you pardon me just a moment, Mr. Cardin? I wrote to you in this regard, and through you I appealed to the government. Would that constitute an orderly appeal?

Hon. Mr. CARDIN: No. It should be addressed to the secretary of the privy council.

Mr. SHAW: Thank you.

Hon. Mr. CARDIN: But I could transfer your letter and your complaint to the board. However, it might be preferable to follow the ordinary course, which is a letter or a petition of some sort sent to the Governor in Council, appealing against the decision of the Board of Transport Commissioners. That is the practice that is followed. Although, as I said, I sympathize with a case like the one you have just indicated, I would not like very much to have the Board of Transport Commissioners called upon to answer questions or to be criticized upon the decision that they have rendered, probably in good faith, even though there is a minority report. After all, they are judges, and we have got to accept their decision just as an ordinary man has to accept the decision of the court when all the judges do not agree on the point at issue. My suggestion would be that it would be much more proper if a petition were sent to the Governor in Council, appealing from the decision that has been given, stating the particular reasons and asking to be heard by the Governor in Council, meaning the government. You will be given, or any person interested will be given an opportunity to be heard by the government. That would be my suggestion. It would meet your request. Suppose we bring the Board of Transport Commissioners here. We would get nowhere, because we have no jurisdiction here to reverse the decision that has been given by the Board. The only authority having that jurisdiction is the Governor in Council.

Mr. SHAW: Mr. Chairman, in view of Mr. Cardin's statement, I am perfectly willing to have rescinded that motion which would have called the Board of Transport Commissioners here. I have learned a great deal about the method of an approach on this question. If I make an appeal to the Governor in Council, and am then granted permission to be heard by Council, would that also enable any others to be heard?

Hon. Mr. CARDIN: Yes.

Mr. SHAW: There is one other matter I should like to bring up. Our C.N.R. was a party to this application for abandonment. I do not want to use any unfair expression, but my first idea is to condemn them for that action. I feel that my motion to the effect that the C.N.R. members of this joint co-operative committee be summoned to appear before this committee, to endeavour if possible, to justify their actions in this regard, should be acted on favourably. I am not sure, Mr. Chairman, whether I moved that before or not.

Mr. MAYBANK: Or to express penitence.

Mr. SHAW: Or to express penitence, as Mr. Maybank has suggested.

The CHAIRMAN: As I understand it, Mr. Shaw, you are withdrawing this former motion?

Mr. SHAW: Having to do with the Board of Transport Commissioners?

The CHAIRMAN: Yes, because we have no competence to force them to come here. We could only request them to come.

Mr. SHAW: I did not hear that, Mr. Chairman.

The CHAIRMAN: I say we have no competence to force them to come here. We could only request them to come.

Mr. SHAW: It was only a matter of language. Whatever the language was, I am perfectly willing to withdraw.

The CHAIRMAN: Then the first motion of yours is withdrawn. Are you making another motion?

Mr. SHAW: Yes. I am moving that the C.N.R. members of that Joint Co-operative Committee be summoned to appear before this committee. I think that is sufficient.

Mr. DONNELLY: Why do you want them here?

Mr. JACKMAN: He wants to change their minds.

Mr. VAUGHAN: I should like to point out that these men have been carrying out instructions under the Canadian National-Canadian Pacific Act with a view to co-operation and effecting economies; and I presume they felt, when they placed their evidence before the Board of Transport Commissioners, that the matter would be weighed properly and a judgment given in accordance with the evidence submitted.

Mr. SHAW: Mr. Chairman, I may not be fair in making this statement; but you have a three-man commission and the chief commissioner voted against the application for abandonment. Now, I say that is significant.

Mr. JACKMAN: That is ground for appeal.

The CHAIRMAN: Let us not waste any more time about this. We have another motion. Does anybody want to speak on it? If not, I am going to put it.

Mr. DONNELLY: We are not here as a judicial body to bring people before us and to condemn them or to acquit them. We are here to look into the affairs of the Canadian National Railways, and its financial statement.

Mr. SHAW: Mr. Chairman, as a member of this committee, I have presented certain evidence, I believe; and if for no other reason than to give these men an opportunity possibly to place before the members of this committee another phase of the case, then I think it should be done. I think we are sitting as a committee to examine into certain matters such as this. If not, why such a committee? Why do we sit?

Mr. HAZEN: The majority of the court held that these men were right.

Mr. SHAW: I question that, and that is naturally grounds for appeal.

Mr. DONNELLY: Question.

The CHAIRMAN: Moved by Mr. Shaw that the members representing the C.N.R. on the joint C.N.R.-C.P.R. committee be requested to appear before this committee—the C.N.R. members of the joint C.N.R.-C.P.R. committee who presented the evidence before the Board of Transport Commissioners, be requested to appear before this committee to give evidence or for questioning.

Hon. Mr. CARDIN: Mr. Chairman, may I ask Mr. Shaw if he does not himself think that it would be somewhat unfair and inequitable to have brought before this committee just the representatives of the C.N.R. on that joint board? If the request has been made or representations have been made by the joint board, I do not think it would be fair to bring before us for criticism just the persons or the representatives of the C.N.R. upon whom we have some jurisdiction. Besides, that joint board is not supposed, according to law, to act only when they are seeking to avoid losses. They are empowered and they are forced by the law to co-operate, even to practise economies. That is the law upon which they are exercising their powers. There is no doubt that by the method that I suggested to Mr. Shaw a moment ago the result that he wants to obtain will be obtained just the same; because application having been made by that board for the abandonment of that line, they will certainly appear before the Governor in Council to oppose your representation and your request to have set aside or to have quashed, if the word is correct, or changed, the decision of the board. You will have them before the proper tribunal. Having them here would lead us nowhere, because they have no authority to change anything. They have made their argument. They have placed the facts, according to their judgment, before the court. The court has decided. What can we gain by having them here before us now and criticising their action? We cannot render any judgment that would meet your request. The committee cannot meet your request by criticising these men. But it may be that when you have the second opportunity of having the matter discussed before the proper authority, the Governor General in Council, you will have better results. These people are going to appear there, and then you will be at liberty to cross-examine them before the proper authority. It is another appeal, another opportunity that is being given to you; and that opportunity will give you a greater scope and may bring you better results than having them here when we have no jurisdiction to impose upon them any decision at all. I do not know if I make myself clear. I do not know whether I have made myself clear or not.

Mr. SHAW: My object in the first place in mentioning the C.N.R. was the fact that I did not believe we had the authority to summon the C.P.R. members of that board. In the second place, I have been favourably impressed by the words of the Minister of Transport (Hon. Mr. Cardin) and I am prepared to let it rest in the light of what he has said and leave it to the future. I am not a lawyer.

Hon. Mr. CARDIN: Well, Mr. Shaw, you might be a lawyer. I would grant you a certificate any time.

Mr. MAYBANK: I think there is one thing he overlooked; I think you probably might have got an acknowledgment from the Minister of Transport that he would be prepared to go and speak for you before the council.

Some hon. MEMBERS: Carry on.

Mr. SHAW: In view of the minister's explanation, and to expedite the business of the committee, I will withdraw that resolution.

Mr. JACKMAN: Might I ask, Mr. Chairman; is the right to appeal absolute, or discretionary with council?

Hon. Mr. CARDIN: Oh, it is absolute.

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Canada Railways and Shipping Standing
Committee on, 1942

SESSION 1942

HOUSE OF COMMONS

CA1 XC15

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(STANDING COMMITTEE)

ON

(RAILWAYS AND SHIPPING)

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5

WEDNESDAY, MAY 6, 1942

WITNESSES:

Mr. H. R. Moore, Brotherhoods of Locomotive Engineers and Firemen.

Mr. R. C. Vaughan, President, Canadian National Railway System.

Mr. N. B. Walton, Vice-President of Operations, Canadian National
Railway System.

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1942



REPORT TO THE HOUSE

WEDNESDAY, May 6, 1942.

The Standing Committee on Railways and Shipping owned, operated and controlled by the government, begs leave to present the following as a

SECOND REPORT

Your committee has considered the following items of the estimates referred to it on April 29, 1942, and approve of same, viz.:—

400 Maritime Freight Rates Act, Canadian National Railway Eastern Lines.....	\$3,350,000
401 Maritime Freight Rates Act—Railways other than Canadian National Railways.....	900,000
410 Canadian National (West Indies) Steamships Limited—Capital—Advances.....	20,000
411 Prince Edward Island Car Ferry and Terminals Deficit, 1942.....	400,000

All of which is respectfully submitted.

J. P. HOWDEN,
Chairman.

MINUTES OF PROCEEDINGS

Room 277, House of Commons,

WEDNESDAY, May 6, 1942.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met this day at 10.00 o'clock a.m. Mr. J. P. Howden, the chairman, presided.

Members present: Messrs. Bercovitch, Bradette, Donnelly, Emmerson, Ferland, Gray, Hanson (*Skeena*), Hazen, Howden, Jackman, McCulloch, Maybank, Nicholson, Sanderson, Shaw, Sissons.

In attendance: The following officials of the Canadian National Railways: R. C. Vaughan, President; N. B. Walton, Vice-president of Operations; Alistair Fraser, Vice-president of Traffic; W. M. Armstrong, Assistant Chief of Research and Development; T. H. Cooper, Comptroller; W. S. Thompson, Director of Public Relations. Mr. H. R. Moore, Chairman of Committees, C.N.R. Brotherhoods of Locomotive Firemen and Brotherhood of Locomotive Engineers.

Mr. H. R. Moore was called. The witness was examined at length and afterwards permitted to retire.

During this witness's examination, Mr. Vaughan and Mr. Walton were asked a few questions regarding Mr. Moore's submission.

The chairman, on behalf of Mr. Mayhew, M.P., fyled with the Committee a telegram from T. H. Guy, Chairman of Brotherhood of Locomotive Firemen of Lake Cowichan, B.C., and E. Duncan, B.C., in which representations are made in connection with the division of Government controlled business between the C.N.R. and the C.P.R.

Four similar telegrams addressed to him were fyled personally by Mr. J. Gordon, member for Moose Jaw, Sask., viz:

G. A. Huffman, Chairman, Commercial Telegraphers Union, Moose Jaw;
Chairman, Brotherhood of Locomotive Engineers, Moose Jaw;
J. Rogan, secretary and J. A. Magrath, chairman, Lodge 521, B.L.F.
and E., Moose Jaw;
W. S. Knox, chairman, Brotherhood Railway Carmen of America (Moose Jaw Lodge No. 204.)

Mr. Bercovitch moved, seconded by Mr. Gray, that the telegrams be not recorded in the printed report but that they be noted in the minutes of proceedings.

And the question being put on the said motion it was agreed to, on division.

The Chairman, on behalf of the Committee, thanked the officials of the government-owned transportation companies for their valuable contribution and Mr. Vaughan on their behalf expressed their gratitude for the kindness accorded them by all the members of the Committee. The officials were then permitted to retire.

On motion of Mr. McCulloch, it was agreed that the Chairman with three members of the Committee selected by the former form a subcommittee entrusted with the work of drafting a final report for consideration of the committee at a later date.

Mr. Nicholson moved, and the committee agreed, that the Minister of National Defence for Air be called before the committee prior to the taking into consideration of the final report.

On motion of Mr. Donnelly the committee adjourned to meet again at the call of the Chair.

ANTOINE CHASSE,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

May 6, 1942.

The Select Standing Committee on Railways and Shipping met at 10 o'clock, a.m. The Chairman, Mr. J. P. Howden, presided.

The CHAIRMAN: Order, gentlemen. We have a quorum, and we have only an hour. We have with us this morning Mr. H. R. Moore from the west representing the Brotherhood of Locomotive Firemen and the Brotherhood of Locomotive Engineers, who wired this committee several days ago asking for permission to address the committee. We will not use up any further time in remarks but will ask Mr. Moore to present his case to the committee.

Mr. H. R. MOORE: Mr. Chairman and honourable gentlemen, we have a condition on our hands at the present time that is possibly without parallel in that, during a time when we feel that conditions are such that we should be operating at a maximum rate, we find that we are at a very low level as far as employment is concerned. This condition came about, or the commencement of it was about one year ago. We were operating at capacity as far as our personnel was concerned. The business started to fall off in the month of September, and from that on to the 20th of December last year our men with twenty years' seniority could not work. Since that time, they have had about two weeks' work; that is, steady work. It has been necessary in the past at various times during the year for these men to move around from one territory to another in order to fill in their entire time and make an annual salary. But at the present time they are not able to go to any spot in the western seniority district and hold any employment. This condition did exist, prior to the date I have mentioned, on the C.P.R.

Mr. MAYBANK: Excuse me, Mr. Moore. Here is a letter that came to me and which I was asked to deliver to you. It is some additional information for you.

Mr. MOORE: I shall not delay you, gentlemen; I will just continue. What we wish to do is to lay the bare facts before you with the idea of correcting this situation, if we can.

Mr. MAYBANK: Mr. Chairman, I think it would be more convenient if the witness were up at the front; and also I do not think any other witness has stood up, unless he desired to speak that way.

The CHAIRMAN: We discussed that matter and thought perhaps this arrangement was best.

Mr. MAYBANK: I beg your pardon. I did not mean to be covering ground that has already been covered.

The CHAIRMAN: I did not discuss it with the witness, but we discussed it among ourselves and thought that he would speak to better advantage over there where he would be better heard.

Mr. MAYBANK: That is all right.

The CHAIRMAN: Go ahead, Mr. Moore. Do whatever you wish. If you wish to sit down, sit down.

Mr. MOORE: Thank you. I would like to consider the seventh seniority district of the C.N.R. as an example that would give you a better idea as to just exactly what the situation is. This district extends from the lake head

to Wainwright. On that district there are 1,383 men. At the present time there are 473 of them not working. On our personnel in the western region, we have between 800 and 900 men who are experienced railway men with over fifteen years' rights who are not working. Many people, when you tell them this, can hardly credit it. Nevertheless, those facts can be borne out and substantiated. This condition of having 473 out of 1,383 out of work at the present time commenced in December and has continued up to date, with the exception of two or three weeks. The only employment that these men were able to gain during the time that they were out of service on the C.N. was with the C.P. or the C.N. in eastern lines. Many of our men from the west have gone to the C.N. eastern lines. We, as a brotherhood, find that we have a condition where you can to-day have too much seniority to work, from the fact that the younger men were called back to protect their seniority, with the result that they were able to remain away on the jobs that were offered to them by other railroad companies and with the C.N.R. eastern region where our seniority does not extend.

I should like to make a particular plea for our men, who are young men. They are good men and they are the kind of men that we need during war time. They are efficient, and efficiency means a saving of time and expense, which is a great asset in trying times like these. Each one of these men has an insurance book in his pocket which tables him as a railway employee. When they are asking for a job elsewhere and an employer sees that they are railway employees, they are undesirable. They are undesirable from the fact that they must go back to their work when called. This makes it very unsatisfactory for getting employment. The condition that I have outlined that exists on the C.N.R. to-day is precisely what existed on the C.P.R. a year and six months ago. As a matter of fact, twenty years' seniority will not hold you a job on the seventh district. A year and six months ago that condition obtained on the C.P.R. but to-day they have men working who were hired this year; so that we feel something is taking place to correct conditions elsewhere where facilities are such that possibly more business goes to one road on account of adjacent tracks to industrial plants. There are many reasons that we can see for it. But we would urge this body to see if there is not something that could possibly be done so that these men's services can be utilized at a time like this when we know that they are so sorely needed. It will also allow a lot of younger men who have been hired to do this work, to be free to follow other lines in war services. Railway men are considered to be engaged in a necessary service in time of war, and with that in view it was considered that they would be exempt from military service, and I believe it is so. The men I am speaking of have sons who are in the army, but they are not young enough to be there themselves any more, many of them having served in the last war. When the young fellows that are going away, and the young men that are holding jobs, see conditions existing like this, where the father is unemployed, being a veteran himself, and when the government states that they will have their jobs returned to them when they return after serving, it creates a bad effect, not only in their minds but in the public mind.

Our men that we have working are of high moral character. They see these things, and at a time like this they do not wish to give them a public airing. We felt that possibly a pamphlet outlining this thing, distributed amongst the men so that they would be able to offset any rumors that were not correct and not allow anyone to circulate anything that was contrary to the welfare of the country in general, would be an ideal thing. Since that time we have hesitated, and when this body was so kind as to give us permission to state our case here, we deemed that the first thing and possibly to the greatest advantage. If we are able to correct this condition in any way, we will then feel that we are amply repaid and we wish that you will be repaid in like kind by the fact of the results that are obtained.

The CHAIRMAN: Would you restate some of these figures for the benefit of the members who were not on hand?

Mr. MOORE: Yes.

The CHAIRMAN: You said you had how many men working a year ago and who are not working now?

Mr. MOORE: 473. That is in one seniority district only.

Mr. MAYBANK: Which one?

Mr. MOORE: The seventh.

Mr. BERCOVITCH: To what do you attribute unemployment at the present time?

Mr. MOORE: There are many things that contribute to it. It may be necessary that traffic be routed in certain routes that fail to pass over our tracks. We really have three main lines leading into Winnipeg from the West.

Mr. DONNELLY: Are these 473 out of 1,300 men in Winnipeg?

Mr. MOORE: No. That is not in Winnipeg.

Mr. DONNELLY: That is not in Winnipeg. Where is it?

Mr. MOORE: That is from Port Arthur to Wainwright.

Mr. BRADETTE: What about the principle of universal promotion? Does that not apply to your section of the line?

Mr. MOORE: Yes.

Mr. BRADETTE: What about men of 25 years seniority? Can they bump off some men in the eastern section if they want to?

Mr. MOORE: No. It only applies in the seventh district from Port Arthur to Wainwright.

Mr. BRADETTE: You have universal promotion within that circle only.

Mr. MOORE: Yes.

Mr. BRADETTE: And you cannot bump off from the east to the west?

Mr. MOORE: No. When I stated that younger men were able to go away and get a job on the eastern lines where business has certainly increased—our business on the eastern lines has increased; there is no question about that—when they went away they were not needed and they were not called back. The result is that they are working steadily the year around, whereas the older men are affected more; and when I say 473, I mean they are unemployed in that district. A few of the younger men—we have 52 men at the present time working on the C.P.R.—are beginning to be cut off now. They are gradually filtering back and these men too will be out of jobs.

Mr. BERCOVITCH: You have not answered my question as to what the cause is for the lesser number of men.

Mr. MOORE: I feel that this commission, being in possession of all the facts, would be better able to answer that question. I would be pleased to know that myself.

Mr. DONNELLY: Is not a lot of this due to crop failure over that line of railway during the past year from Port Arthur through to Wainwright?

Mr. MOORE: No sir, you cannot blame it on seasonal fluctuation.

Mr. BERCOVITCH: Perhaps they had too many men before and the result is now, with greater economy, some men have to be let off.

Mr. MOORE: We have not hired anyone for fifteen years.

Mr. BERCOVITCH: Do you know the total number of employees to-day on the C.N.R.?

Mr. MOORE: Yes.

Mr. BERCOVITCH: Is it greater or less than it was, say, two years ago?

Mr. MOORE: I only have the figure from the *Canada Year Book* this year; but then, you mean the locomotive employees, that is, the running trades, or the total personnel?

Mr. BERCOVITCH: I would like to have both if you can give them to me.

Mr. MOORE: It is 78,000 at the present time.

Mr. BERCOVITCH: To-day?

Mr. MOORE: To-day. That is the *Canada Year Book*.

Mr. BERCOVITCH: What was it two years ago?

Mr. MOORE: I could not tell you.

Mr. VAUGHAN: We have many more men employed on the system to-day than we had on the system in the last two or three years. It has been going up each year since 1938.

Mr. DONNELLY: It does seem to me that we have more men employed on the railroads, and we have a shortage of men in many sections of the railroad. This is one section where there is a surplus. There must be something in that region causing that surplus of men. I know, for example, that in the northern part of Saskatchewan there was a crop shortage last year.

Mr. GRAY: Would not that apply to the C.P.R. also?

Mr. DONNELLY: There are certain sections in western Canada where the C.P.R. would have the same thing.

Mr. VAUGHAN: The biggest part of the crop last year was produced along the Canadian Pacific line. Their crop conditions were better last year than were those along the lines of the Canadian National. That is an unfortunate situation, but it simply means that the traffic is not there to move and when it is not there, of course, we cannot employ the men.

Mr. GRAY: Could not these men be utilized in some other district?

Mr. VAUGHAN: Some of them, as Mr. Moore says, have gone to the east. The seniority conditions are governed largely by the men themselves.

The CHAIRMAN: What is the mileage from Port Arthur to Wainwright?

Mr. WALTON: It is approximately 1,050; it is 414 to Winnipeg from Port Arthur and it is about 660 from Winnipeg to Wainwright.

The CHAIRMAN: What percentage is that of the total transcontinental mileage, approximately one-third?

Mr. WALTON: It would not be a third. The mileage from Halifax to Vancouver is 3,800 on our line; and when I speak of that mileage from Port Arthur to Wainwright that includes the branch lines and other lines running off the main system.

Mr. MOORE: I can give you the comparative figures of working assignments for the C.N.R. and the C.P.R. as of the date of March 23. Perhaps that would help to answer your question.

Mr. DONNELLY: Yes, all right.

Mr. MOORE: On March 23, out of 1,383 engineers on the C.N.R. on the seventh district, 946 were working and 437 were not working. Of the 993 employed by the C.P.R., 917 were working and only 76 were not working. Now, the 76 actually were working because the youngest man on the district was a C.N.R. man and he has never come back to us. He must have got good mileage for that particular year.

Mr. BERCOVITCH: How do these figures compare with the C.N.R.?

Mr. GRAY: Give Mr. Bercovitch that first figure again.

Mr. MOORE: Of the 1,383 employees in the C.N.R.

Mr. BERCOVITCH: That is C.P.R.?

Mr. MOORE: No, that is C.N.R. 1,383 employees on the C.N.R. against 993 on the C.P.R.; and you must consider that the C.P.R. extends from Fort William to Port Arthur only, whereas we go on a little further, to Wainwright.

Mr. DONNELLY: From Winnipeg to Broadview they had a good crop last year.

Mr. MOORE: Yes.

Mr. DONNELLY: A very heavy crop, and that meant a lot of wheat to move and a lot of freight and all busy; whereas the northern part of Saskatchewan up to Wainwright had a crop failure practically last year. That is just what I referred to. There is no crop to move out of there.

Mr. MOORE: Well, the car loadings were checked, it shows 38 per cent to the C.N. and 62 per cent to the C.P. Now, mind you, you cannot really arrive at any conclusion on that particular point; but then that is a mere appraisal of the actual tonnage which moved. We feel that the tonnage which is being moved over the paralleling lines at the present time would give all experienced firemen a job without the men that were hired this year and last year. So that our grievance as a brotherhood is that we would like our old men to work before the younger men work; otherwise we have a condition on our hands that to us is more or less unbearable, and we cannot actually go back to the men and give them any excuse for it, men who have understood for years that they had only to try to maintain the service that was expected of them from the company, and maintain their seniority, they have known in the past that when they arrived at a certain date of seniority they would be protected for life; now they find that if they have too much seniority it is working against them.

Mr. NICHOLSON: How old would these men be?

Mr. MOORE: They would be around 38 to 56.

Mr. NICHOLSON: And they would have seniorities of around 20 years or more?

Mr. MOORE: Around 20 years; yes, from 15 to 20 years.

Mr. McCULLOCH: And you say there have been none taken on during the last 15 years?

Mr. MOORE: Yes, not for the last 15 years.

Mr. McCULLOCH: Then the youngest taken on must be around 35 or 40 years of age?

Mr. MOORE: Thirty-eight, I would judge.

Mr. SHAW: Do your men feel that they are getting their share of the government business?

Mr. MOORE: To be quite frank with you, sir; no, they do not. That is another issue, and we feel that we have confidence in this committee and we would like just to give you the bare facts as they are and let you know the conditions. It is a condition that can bring about bad morale, and I don't believe there is better morale anywhere than there is amongst our personnel.

Mr. MAYBANK: What are these bare facts in respect to government business which you mention?

Mr. MOORE: Well, in tabulating the average of business and making a curve—and in that is included passenger business, way freight business and the like which continues throughout the year—we know how many employees that will carry. Then, there is a peak business that comes during the crop season. We have made a study of that and we have also used the charts of the railway commission throughout our findings. We find that that curve is fairly unreliable, it might come a little earlier or a little later. What we mostly consider is the increased tonnage on account of war operations and our regular business; and we can practically see, and an individual man can see for himself, just about where he should stand on a working basis.

Mr. McCULLOCH: It must have been a good deal worse 15 years ago than it is now?

Mr. MOORE: That was a big year for us.

Mr. SHAW: Were you taking on any men at that time?

Mr. MOORE: We had barely enough business for the men that we had.

Mr. BERCOVITCH: Is not this falling off in business the cause of the employment of a smaller number of men?

Mr. MOORE: Yes, the falling off in our business.

Mr. EMMERSON: That does not necessarily mean that the business of the railway is falling off?

Mr. MOORE: No.

Mr. EMMERSON: You are getting more miles as you run the trains faster, and the locomotives are hauling larger loads and you do not require as many train crews to-day to handle the same amount of business that were required some years ago.

Mr. MOORE: That is quite true, but we have had a lot of superannuations.

Mr. DONNELLY: Have you a list of your unemployed and the number of men you have had during the last 10 years?

Mr. MOORE: You mean, year by year?

Mr. DONNELLY: Yes, year by year.

Mr. MOORE: Year by year—I can supply you with that.

Mr. DONNELLY: Just so the committee can know whether it has got better or worse.

Mr. BRADETTE: I will ask Mr. Moore to enlarge on this a bit. Your brotherhood, I understand, covers the whole of Canada and it is organized in a series of locals or branches to cover various sections of the system throughout the country?

Mr. MOORE: Yes.

Mr. BRADETTE: Apparently some of your officials might have been a little lax in not having made other sections of the brotherhood familiar with the labour situation. You have travelling officers who are experienced men: That surplus of men could have been absorbed at some other place on the line. That would be the only solution to your problem, even to-day. It would have been a solution to your problem a few years ago even. I make that statement because on many many sections of the line they have been taking on new men. I know it is true in our part of the country. There must be something wrong with your organization.

Mr. MOORE: Many of these men have been absorbed elsewhere in our system, but it rests with the men individually to decide whether they will be better off after 15 years of service in the territory in which they started or by starting over new in a new territory and losing their seniority rights.

Mr. BRADETTE: I mean that for the last 15 years it should have been possible for your brotherhood to have arranged through its organization for the men who were not being taken care of in one district to have been re-absorbed into other sections of the organization.

Mr. MOORE: Of course, that has always been considered that a man would remain in his own territory. Such a thing was never thought of until this peak business came on. It was never thought that any of us would be required to move from there.

Mr. BRADETTE: What would be the reason for that?

Mr. MOORE: There is no dollar value placed on seniority, but a man with 10 years seniority would value it highly.

Mr. BRADETTE: That would be the argument of all of the rest of the system too; but, surely it is a matter that could be arranged.

Mr. MOORE: It would be rather hard to arrange. Speaking personally, if I had remained in Toronto I would now have had one of the best passenger runs out of that point, had I remained there instead of going to Winnipeg. To-day I could not hold anything. That is the problem, there is no question about that. If I were to move down there again I would have to start all over at the bottom or it would mean that I would be displacing someone who has already established certain seniority rights, I would be displacing him.

Mr. BRADETTE: I know it is being done on some sections of the line in the north country. I know that we have had labour men brought into our section displacing men who had been there for some time and they were brought all the way from Quebec city and the lake St. John region. It seems to me that it should be possible for the brotherhood to be a little more elastic in some of their regulations. That is the way I feel about it.

Mr. MOORE: That is only one district, is it not?

Mr. BRADETTE: I am merely mentioning one district with which I happen to be familiar. The main trouble however is more universal, and I think it should be possible to make some arrangements whereby it would be possible to utilize the surplus of men at one point in another section of the country.

Mr. MOORE: My only answer to that is that under normal conditions the men are satisfied; but as things are to-day there is the feeling that there is something there that should be corrected, that there is a lot of business there that they are not getting and that they should have a share in it; that they should have a chance to do some of this work instead of younger men being hired to do it.

Mr. BRADETTE: That is what I mean. That is my viewpoint, that they should be re-absorbed by the railway taking some of the surplus from your district and using them somewhere else on the system. It seems to me that there must be some lack of elasticity in your set-up somewhere.

The CHAIRMAN: I would like to suggest to the committee that the witness is here for interrogation and not for argument. We have very little time at our disposal this morning.

Mr. BRADETTE: I appreciate that, Mr. Chairman, we are trying to get a solution to this.

Mr. DONNELLY: What solution are you suggesting?

Mr. MOORE: We have tried a solution. We have 52 men working on the C.P.R. We have something in the neighbourhood of 50 or thereabouts working on the C.N.R. Many of them still maintain that they will return to the western region. They won't be satisfied with that job. But the fact that the company has not called them back to date enables them to retain their seniority in both districts. I myself worked out of Toronto and if I had merely kept on there I would have been well advanced up that list at the present time. But after 20 years it is pretty hard for a man to decide to do a thing like that.

Mr. VAUGHAN: I think I might make an explanation, Mr. Chairman, in connection with the traffic situation. On western lines there is not much difference between the mileage of the Canadian National and the Canadian Pacific. They have slightly more mileage than we have, but there are certain commodities which are tributary to their line which move in large quantities, which we have not got. I might mention three in particular. First of all there is the grain business. In the last two years the grain crop has been heavier or

their line than it has been on our line. They get most of the lumber business from the Pacific coast because most of the mills have been established there many years and are located on the Canadian Pacific lines. They were established there before the National lines reached the Pacific coast in many cases. Then they get more commercial coal than we do. We have difficulty in getting sufficient steam coal on the most of our own lines to take care of our own requirements; whereas they have more commercial mines producing coal in the Crow's Nest and elsewhere and the result is they get a substantially larger movement of commercial coal than we do. The reason for the situation mentioned by Mr. Moore—and we are very sympathetic with him—is the Canadian Pacific are in western Canada getting much more business than we are. But that is due to the conditions referred to.

They have some very large industries on their lines, for example, they have the Consolidated Smelters at Trail, which gives them a tremendous amount of business. I see what Mr. Moore is driving at. I had no conversation with him on the subject; in fact I did not know he was coming here until the chairman mentioned it. They see all the passenger troops and freight movement going over the Canadian Pacific, and C.P.R. men employed to a greater extent than the Canadian National men are employed. The Canadian Pacific have conditions more favourable to the men for the reasons I have stated. I presume Mr. Moore feels if more of that war traffic was going over the Canadian National more of our men would be employed.

Mr. BERCOVITCH: That would mean, Mr. President, that the Canadian Pacific would employ less employees?

Mr. VAUGHAN: Quite so.

Mr. BERCOVITCH: Somebody would be out of a job, then, on the Canadian Pacific.

Mr. NICHOLSON: Mr. Moore mentioned the C.N.R. had 38 per cent of car loadings as compared with 62 for the Canadian Pacific. What year would he be speaking of?

Mr. MOORE: That is as published in the *Free Press* for the month of March and three days later.

Mr. NICHOLSON: What year?

Mr. MOORE: I cannot tell you.

Mr. VAUGHAN: That would probably be for the entire western region from the head of the lakes to Vancouver and Prince Rupert.

By Mr. Nicholson:

Q. I wonder if Mr. Moore could give us any idea of the percentage of traffic from Winnipeg east over the C.N. and the C.P. We have had nobody here in the committee representing the C.P., and the C.N.R. officials have not a very close approximate percentage to give us. Would you have any information along those lines from your Brotherhood?—A. I can tell you what my personal experience has been.

Q. What has it been?—A. Of hauling troops over the C.P. I have contacted men of both the army and the air force who have made seven and eight trips across the continent and have never ridden on the C.N.R.

Q. My experience has been when travelling east that there are more extra trains on the C.P.R., more coaches, and it seemed to the casual traveller that the C.P. did a great deal more business east of Winnipeg than the C.N.R. Would your Brotherhood have any information on that?—A. We did not make an effort to get that.

Mr. BRADETTE: I see only two solutions to the problem. The first one is to equalize the traffic in that zone, and the second one is to have a distribution of the man-power. Apparently that is not possible, and if it is not possible

under the present conditions there is no way to solve it. The other solution I think of is, if the men were willing to be changed and sent to some other sections of the country it would help.

The CHAIRMAN: Gentlemen, I think we should get through with the witness, get through with the interrogation, because we have not got all morning.

By Mr. Gray:

Q. Mr. Moore, how many of those 453 men that you speak of own their own homes in that particular section?—A. Not very many of them. It has been nip and tuck with them for years. The fact that a man is unemployed for a certain period in the year, when he does work he has pretty well got to use all he receives to pay back debts. So it has been a pressing problem for many of them are in hard circumstances.

Mr. GRAY: May I ask Mr. Vaughan this—having heard Mr. Moore, it does not seem to me it is a problem for this committee particularly—is it possible that some solution could be worked out, or would the railway be agreeable to giving very serious consideration to the problem that has been raised?

Mr. VAUGHAN: This matter has been given a good deal of consideration by us, and I think, as Mr. Moore states himself, the seniority board has had the opportunity of coming east where there was work for them to do. That is as far as we can go, to offer them work on some other part of the system where we may need men. As far as seniority is concerned, that is controlled by the men themselves to a very large extent.

Mr. BRADETTE: By their Brotherhood?

Mr. VAUGHAN: By their Brotherhood, yes.

Mr. EMMERSON: Mr. Chairman, may I ask the president this: should not action be taken to remove the restriction on the movement of traffic as far as the war problems are concerned? Would not that alleviate the conditions somewhat, or might it not?

Mr. VAUGHAN: In the ordinary course of events the Canadian National Railways get considerably more business in the east than in the west. The Canadian Pacific gets more business in the west. That has always been the case and I presume always will be the case on account of the location, the geographical location of the larger towns and cities in the west and industries like the Consolidated Smelters, the lumber mills and the coal mines. That is the situation, as I see, which cannot be corrected. There might be more troops sent over our lines, more lumber, and things of that kind, but I think we are on very difficult ground discussing these matters here.

Mr. McCULLOCH: Could these men not be given employment in some of the shops, and not lose their seniority?

Mr. VAUGHAN: Shopmen all have seniority within their group. Shopmen in many cases are qualified mechanics.

Mr. McCULLOCH: Some shops are manufacturing munitions of war?

Mr. VAUGHAN: Yes, they are.

Mr. McCULLOCH: They will require skilled help, though.

Mr. VAUGHAN: Yes.

The CHAIRMAN: I have a telegram here which a member of the House of Commons has delegated a member of this committee to place before the committee.

Mr. SANDERSON: Whom is the telegram from?

The CHAIRMAN: The name is T. H. Guy, Local Chairman B. of L.F. and E., Duncan, B.C.

Mr. ROSS (*Moose Jaw*): I have four wires here, if I may be permitted—

The CHAIRMAN: Let us deal with this wire first, to see what we are going to do with it. What is the wish of the committee?

Mr. NICHOLSON: On a point of procedure, I think there are hundreds of these telegrams that come to nearly every member of the house.

Mr. McCULLOCH: I do not think any of them should be put in.

Mr. JACKMAN: Certainly they should; why not?

The CHAIRMAN: We will have at least dozens that will have to come before the committee.

Mr. BERCOVITCH: I received one yesterday.

Mr. JACKMAN: If there is a contrary proposition why should not we hear it?

The CHAIRMAN: There is no antagonism or anything of that kind. If you are going to receive one you will have to receive them all.

Mr. NICHOLSON: On a point of procedure, we are questioning this witness here and before we discuss the question of filing telegrams we should dispose of the witness.

The CHAIRMAN: All right.

Mr. NICHOLSON: I wonder if Mr. Moore can give the committee any information as to the 993 on the Canadian Pacific who are working and who have less than eight years' seniority.

Mr. MOORE: 223 have twenty-three years' service. Wait a minute. I must make a correction, hired in 1923.

By Mr. Nicholson:

Q. You say 993 Canadian Pacific employees worked at the head of the lakes to Broadview. My question was how many of these 993 would have less than fifteen years' seniority?—A. Oh! I would not like to make a rash statement on that, but many, many men were hired this year and last year.

Q. Have you any idea of the number hired with less than five years' seniority?—A. I would state less than two years roughly one hundred, possibly two hundred. You see, I could not answer that question because day and date is not worked on the seniority list; but that can be easily found out. Little terminals on the C.P.R. have hired 40 to 60 men and utilized at the same time 18 or 22 of ours.

Mr. MAYBANK: Are there not war plants of some kind on the Canadian National and Canadian Pacific that divide up their business?

Mr. VAUGHAN: There are not very many large munitions plants in the west.

Mr. MAYBANK: What about airports?

Mr. VAUGHAN: The largest one, I think, is at Trail on the Canadian Pacific. Then there is the one at Calgary and the cordite plant at Transcona. These are three of the largest plants in the west.

Mr. MAYBANK: Airports?

Mr. VAUGHAN: Yes, there are more airports on the Canadian Pacific in the west; I think, though, that there are probably more in the east on our lines.

Mr. MAYBANK: Some of the airports are jointly served?

Mr. VAUGHAN: Oh, yes.

Mr. MAYBANK: Take Neepawa.

Mr. VAUGHAN: Yes, many of them are jointly served.

Mr. MAYBANK: It is jointly served, is it? How do you do out of places like that?

Mr. MOORE: I have a communication here, Mr. Chairman, that I would submit to the committee or let the committee decide.

The CHAIRMAN: It is part of your testimony?

Mr. MOORE: It has been sent to me.

The CHAIRMAN: Perhaps you had better read it in the record if it is sent to you. If you want to use it you had better read it in.

Mr. MOORE: I will leave it to you to decide. I receive many of these. Many I turn down entirely because I cannot prove the fact; I do not know whether it is a fact or not.

(After hearing the communication read it was decided that it would not be placed in the record.)

Mr. McCULLOCH: Does the same union control the C.P.R. and C.N.R. employees?

Mr. MOORE: Yes.

Mr. McCULLOCH: What is the matter with the union that they have not looked after this matter?

Mr. MOORE: That is entirely a matter that is up to the company. It was impossible for them to get men without employing our men and just at the time they needed them we still required a certain number of them and we thought the business would revive. There are many reasons for that. It tapered off during the summer, then during the winter it fell off entirely to December 20 and has not come back since. But this is a condition that arose in the last year and six months. I can safely say that in the last year and six months all this has come about. Prior to that our traffic was satisfactory to the men themselves.

Mr. MAYBANK: May I interject one question to Mr. Vaughan with reference to that telegram that was referred to a short time ago. Have you taken any steps to have similar telegrams or dissimilar telegrams to that one remitted here?

Mr. VAUGHAN: No, sir, we have done nothing of the kind.

Mr. MAYBANK: If you had done so do you know what the result would be?

Mr. VAUGHAN: There would be a great many telegrams coming here.

Mr. MAYBANK: You have not fired any telegrams?

Mr. VAUGHAN: Absolutely not.

Mr. BERCOVITCH: It would not be necessary for you to fire any telegrams because we are all here listening to the testimony, and there is no occasion to send telegrams. The C.P.R. is not here and they are not represented. I for one have not any prejudice one way or another but before anything is done we should consider this matter. Before anything is done we should give the C.P.R. a chance to be heard.

Mr. NICHOLSON: Mr. Bercovitch mentioned a short time ago that giving a larger percentage of business to the C.N.R. would result in C.P.R. employees being laid off. I wonder how many of the C.P.R. employees who would be affected have been employed for, say, ten years or more. It seems to me that these men—437 in number—with fifteen years or more seniority are in a slightly different category to men who have been employed for the last year or two. Have you any idea of the percentage of the C.P.R. employees who might be affected by giving the C.N.R. a larger percentage of the business?

Mr. MOORE: Merely those who were hired in the last year I would say.

The CHAIRMAN: Gentlemen, have you any further questions to ask of the witness; if not I shall thank Mr. Moore for his presentation.

Mr. MOORE: Mr. Chairman, and gentlemen of the committee, I thank you for hearing me.

The CHAIRMAN: Now, gentlemen, what are we going to do about this matter of receiving telegrams? Are they to be admitted to the record of the meeting?

Mr. NICHOLSON: In view of the effort to conserve paper I would suggest that no action be taken in regard to those telegrams.

The CHAIRMAN: I am going to put the matter to the committee. I am not going either to admit or exclude them.

Mr. BERCOVITCH: I move that the telegrams be excluded.

Mr. GRAY: I second the motion.

(Motion agreed to).

Mr. Ross (*Moose Jaw*): Mr. Chairman, I realize that the committee has decided to exclude these telegrams from the record, but as a member representing a constituency which has a very large number of employees of the Canadian Pacific Railway in it I feel it is my duty to see that these telegrams get to the committee. We realize that they have come from different brotherhoods of railway trainmen, telegraphers, etc., in that part of the country. I, therefore, would like to be able to present these telegrams to the chairman of the committee so that during your deliberations they might be read to the members of the committee and that the viewpoint of these people be put before the members.

The CHAIRMAN: As I say the committee has excluded the entrance of those telegrams to the record of the committee. You could leave them with the chairman and they can be read to the committee at another time.

Mr. DONNELLY: We have already received telegrams.

Mr. BRADETTE: No one can have any objection to those telegrams forming an appendix.

Mr. Ross (*Moose Jaw*): I will present them to the committee.

The CHAIRMAN: The reception of those telegrams will be noted in the minutes.

Now, gentlemen, there is still other business for this committee to do. We have to draft a report after studying the minutes, and the drafting of that report is usually left to a subcommittee. With all due respect I do think that the members of this committee should devote a little time to the study of the minutes if they are not already fully cognizant of what they contain, and decide what their attitude will be to the report. To expedite matters I suggest that a small committee might be appointed for the purpose of drafting a report and submitting it to the general committee.

Before we conclude our sitting I wish to express the thanks of this committee—and I am sure I have the endorsement of all members of the committee—to the officers from the president down of the Canadian National Railways for their patience and courtesy while appearing at these meetings.

Mr. VAUGHAN: Before we leave I should like to express on behalf of the officers of the Canadian National Railways and myself, to you, Mr. Chairman and members of the committee, our appreciation for the courtesy and consideration you have shown us during these sittings of the committee. The Canadian National Railways is a very big problem and it is difficult sometimes to have answers to all the questions that are asked of us, but we do the best we can, and if any member of the committee wants any question answered at any time and we have not got the answer with us we shall always be glad to get it.

Mr. EMMERSON: Are we giving up the idea of hearing from the R.C.A.F.?

The CHAIRMAN: Well, you know as much about that as I do. We have asked them to appear. It was quite hopeless, however, for Mr. Ralston to come yesterday and it has been hopeless to have Mr. Power before the committee. We will have to have one more meeting of the committee anyway and

if you want to have somebody else before us at a future meeting you had better decide.

Mr. EMMERSON: I think we should have.

The CHAIRMAN: Let us settle about the matter of the appointment of a subcommittee before we close today.

Mr. SANDERSON: Mr. Chairman, I think before you decide on the matter of a subcommittee we should hear someone testify from the Air Force—you have authority to do that—or drop the matter.

The CHAIRMAN: That matter is before the committee. I have not excluded it. It is something to be settled.

Mr. McCULLOCH: I move that the chairman appoint a committee of three to act with him in the preparation of a report to be presented to the committee.

Mr. NICHOLSON: I support the idea suggested by Mr. Sanderson that we hear the Minister for Air. We should meet at the call of the chair as soon as possible to hear the Minister of National Defence for Air, and after we hear him we can appoint a subcommittee.

The CHAIRMAN: We have two motions before us. I shall put the first one which is that the chairman be delegated to select a committee of three to assist him in the drafting of a report for submission to the committee.

(Motion carried).

The CHAIRMAN: Now, we have before us the motion of Mr. Nicholson with regard to hearing somebody from the Department of Air.

Mr. NICHOLSON: I think before the report of the subcommittee is submitted we should hear from the Department of Air. I move that the chair arrange to have the Minister of National Defence for Air meet this committee at a convenient time.

Mr. DONNELLY: I would suggest that the chairman appoint his committee to draft a report and that when we meet again we can hear representations from the Department of Air.

The CHAIRMAN: We will have them here.

Mr. DONNELLY: I would move then that we adjourn to the call of the chair, and at the next meeting when we consider the report of the subcommittee that the chairman have a representative from the Department of Air to meet the committee.

Mr. SANDERSON: Mr. Chairman how can you go on and prepare a report before you have someone here from the Air Force to testify?

The CHAIRMAN: We can think about a report.

Mr. SANDERSON: Yes, we can do that, but I do not think your report will be correct or right unless you have somebody here from the Air Force and get his evidence first.

Mr. DONNELLY: We will get the Air Force man to give his evidence before we consider the report, and we can make whatever changes may be necessary in the report.

(Motion carried).

The committee adjourned to the call of the chair.

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Canada, Railways and Shipping Standing Committee
1942

SESSION 1942

HOUSE OF COMMONS

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STANDING COMMITTEE
ON
RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 6

Friday, May 15, 1942

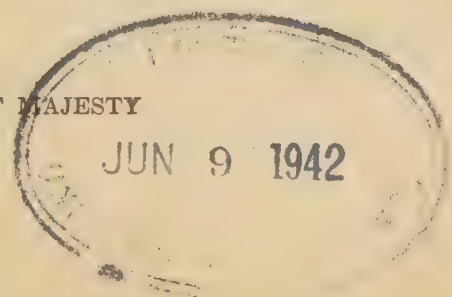
Tuesday, June 2, 1942

Including the Third Report to the House

WITNESS:

Major the Honourable C. G. Power, M.C., K.C., M.P.,
Minister of National Defence for Air.

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1942



MINUTES OF PROCEEDINGS

HOUSE OF COMMONS, ROOM 277,

FRIDAY, May 15, 1942.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met this day at 10.00 o'clock a.m. The Chairman, Mr. J. P. Howden, presided.

Members present: Messrs. Donnelly, Emmerson, Hanson (*Skeena*), Hazen, Howden, Jackman, McCulloch, Nicholson, Shaw, Sissons—10.

In attendance: Commodore C. P. Edwards, Deputy Minister of the Department of Transport; Mr. M. F. Maclellan, Chief Treasury Officer; Mr. F. K. Hollyman, Traffic Manager, R.C.A.F.

The Chairman informed the Committee that a number of communications with respect to the division of government-controlled business between the C.N.R. and the C.P.R., addressed to the Prime Minister and to the Minister of Transport, had been filed with the Committee and were available for the information of the members. These emanated from the following organizations:—

Lodge 122, International Association of Machinists, Winnipeg.

British Columbia Commercial Telegraphers Union, C.P.R. Division No. 1, Vancouver, B.C.

Electoral Workers, C.P.R., Montreal, P.Q.

Brotherhood of Railway Carmen, Local 236, Kenora, Ont.

Ste. Marie Lodge, 234, BRCOF A, Montreal, Que.

Pipefitters, Canadian Pacific Railway, Montreal.

C.P.R. Federated Trades Council, Winnipeg, Man.

Machinists Apprentices and Helpers, C.P.R., Montreal.

Commercial Telegraphers Union, Moose Jaw, Sask.

International Brotherhood of Boiler Makers and Helpers, Montreal.

B.C. Commercial Telegraphers Union, C.P.R. Division No. 1, Vancouver, B.C.

Order Railroad Telegraphers, Winnipeg.

Brotherhood of Railroad Trainmen, Winnipeg, Man.

C.P.R. System, Division No. 1, Winnipeg, Man.

C.P.R. System Federation No. 125, Montreal, Que.

C.P.R. Maintenance of Way Employees, Norwood, Man.

Employees, Canadian Pacific Lines East, Smiths Falls, Ont.

Alberta District Commercial Telegraphers Union, Calgary, Alta.

Division 657, B. of L.E., Revelstoke, B.C.

C.P.R. System, Division No. 1, Winnipeg, Man.

C.P.R. System Federation No. 125, Montreal, Que.

Commercial Telegraphers Union, Alberta District, Calgary, Alta.

International Brotherhood Firemen and Oilers, Toronto, Ont.

Brotherhood of Locomotive Firemen, Local 309, Montreal.

International Unions, C.P.R., Toronto.

Brotherhood of Locomotive Engineers, C.P.R., Montreal.

Brotherhood of Locomotive Engineers, Division 528, London, Ont.

Lodge 134, Brotherhood of Locomotive Firemen and Enginemen, Farnham, Que.

General Chairman, C.P.R. System, Montreal, Que.

Commercial Telegraphers Union, Eastern District, C.P.R., Division No. 1, Montreal.

Brotherhood of Railway Carmen, Lodge No. 239, Farnham, Que.

International Unions, C.P.R., Toronto, Ont.

C.P.R. Order of Railway Conductors, Toronto, Ont.

Commercial Telegrams Union, Ontario District, C.P.R., Toronto.

Commercial Telegraphers Union, C.P.R., Saint John, N.B.

Brotherhood of Locomotive Engineers, Montreal, Que.

Order of Railroad Telegraphers, Winnipeg, Man.

Telegraphers Union, Ontario District, C.P.R., Toronto.

Federated Trades, C.P.R., Vancouver.

Revelstoke Board of Trade, Revelstoke, B.C.

C.P.R. Order Railway Conductors, Toronto, Ont.

Brotherhood of Railway Carmen, Lodge 234, Montreal, Que.

C.P.R. System, Division No. 1, Atlantic District, Commercial Telegraphers Union, Saint John, N.B.

Brotherhood of Railway and Steamship Clerks, Montreal.

International Association of Machinists, Montreal.

International Sheet Metal Workers, Montreal.

Brotherhood of Locomotive Engineers, Kitchener Division No. 562, Schreiber, Ont.

Order of Railroad Telegraphers, C.P.R. Division 7, Montreal.

International Association of Machinists, Victoria Lodge 111, Montreal.

W. H. Hughes, General Chairman, Blacksmiths, C.P.R., Montreal.

Brotherhood of Locomotive Engineers, North Bay, Ont.

Major the Honourable C. G. Power, M.C., was then called.

The Minister of National Defence for Air was assisted by Mr. F. K. Hollyman, Traffic Manager for the Department. The Minister furnished the Committee with certain figures pertaining to the division of government-controlled business between the Canadian National Railways and the Canadian Pacific Railway. He was examined at some length and after being thanked by the Chairman for attending before the Committee he retired.

The Committee then continued their sitting in camera to take into consideration the Report of the Committee to the House.

At 11.00 o'clock a.m. the Committee adjourned to meet again at the call of the Chair.

HOUSE OF COMMONS, ROOM 277,

TUESDAY, June 2, 1942.

The Committee met in camera this day at 10.00 o'clock a.m. The Chairman, Mr. J. P. Howden, presided.

Members present: Messrs. Bradette, Donnelly, Emmerson, Ferland, Gray, Hanson (*Skeena*), Harris (*Danforth*), Hazen, Howden, Jackman, Lockhart, McCulloch, Maybank, Nicholson, Pouliot, Ross (*Middlesex East*), Sanderson, Shaw.

The Chairman informed the Committee that a number of telegrams and other communications with respect to the division of government-controlled business between the C.N.R. and the C.P.R., addressed to the Prime Minister and to the Minister of Transport, had been filed with the Committee and were available for the information of the members. These emanated from the following organizations:—

International Brotherhood of Firemen and Oilers, Lovel, 929, Moose Jaw, Sask.

International Brotherhood of Firemen and Oilers, Regina, Sask.

Brotherhood of Locomotive Engineers, Lodge 258, and International Brotherhood of F. & O., Lodge 335, Montreal, P.Q.

Brotherhood of Railroad Trainmen of Quebec Central Railways, Sherbrooke, P.Q.

Order of Railway Telegraphers, Quebec Central Railways, Sherbrooke, P.Q.

Order of Railway Conductors, Quebec Central Railways, Sherbrooke, P.Q.

Brotherhood of Locomotive Engineers, Quebec Central Railways, Sherbrooke, P.Q.

Brotherhood of Locomotive Firemen and Enginemen, Quebec Central Railways, Sherbrooke, P.Q.

International Association of Machinists, Victoria Lodge 111, Montreal.

C.N.R. System Federation No. 11, Railway Employees Dept., A.F. of L., London, Ontario.

The Committee considered the proposals submitted for the Report to the House.

On motion of Mr. Gray, paragraphs 1 and 2 were adopted on division.

On motion of Mr. Hazen, paragraph 3 as suggested by Mr. Gray was adopted on division.

Mr. Donnelly then moved that the proposal submitted by Mr. Shaw be deleted.

And the question being put on the said motion it was resolved in the affirmative on the following division: Yeas, 11; Nays, 4.

On motion of Mr. Jackman paragraph 4 of the Report was adopted on division.

On motion of Mr. Maybank, seconded by Mr. McCulloch, the Report was adopted and the Chairman instructed to present same to the House, on division.

Mr. Gray moved a vote of thanks to the Chairman and it was passed unanimously.

At 11.05 o'clock a.m., the Committee adjourned *sine die*.

ANTOINE CHASSE,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277

May 15, 1942.

The Select Standing Committee on Railways and Shipping met this day at 10 o'clock a.m. The Chairman, Mr. J. P. Howden, presided.

The CHAIRMAN: Gentlemen, I do not think the chairman needs to make any announcement as to why we are meeting this morning; there is a dual purpose: first to hear the Hon. Mr. Power on some testimony with regard to the division of government business as between the railways so far as his department is concerned, and then to consider our report. I think Mr. Power understands why we want him here and I will ask him to say a word or two in regard to the matter of the distribution of business between the railways, and probably we will save a lot of questioning.

Hon. Mr. POWER: What is it you wish to know?

The CHAIRMAN: We would like to know how you divide the railway business so far as your department is concerned?

Hon. Mr. POWER: I have a statement here concerning the payments made to the Canadian National Railways and the Canadian Pacific Railway for transportation, express, freight and telegrams during the fiscal year 1941-42 on account of Air Force services, and I shall put this statement in the record.

STATEMENT OF THE PAYMENTS MADE TO THE CANADIAN NATIONAL RAILWAYS AND THE CANADIAN PACIFIC RAILWAY FOR TRANSPORTATION, EXPRESS, FREIGHT AND TELEGRAMS DURING THE FISCAL YEAR 1941-42 ON ACCOUNT OF AIR FORCE SERVICES

1941-42	C.N.R.	C.P.R.
	Transportation	
April 1 to June 30/41.....	\$ 269,994 41	\$ 409,904 69
July 1 to September 30/41.....	537,675 61	627,211 51
October 1 to December 31/41.....	1,566,627 92	1,315,022 94
January 1 to March 31/42.....	1,407,369 34	1,343,744 26
	<u>\$3,781,667 28</u>	<u>\$3,695,883 40</u>
	50.6%	49.4%
	Express	
April 1 to June 30/41.....	\$ 3,036 43	\$ 12,607 30
July 1 to September 30/41.....	8,495 34	19,328 34
October 1 to December 31/41.....	26,497 83	29,562 30
January 1 to March 31/42.....	79,331 23	53,144 97
	<u>\$ 117,360 83</u>	<u>\$ 114,642 91</u>
	50.6%	49.4%
	Freight	
April 1 to June 30/41.....	\$ 394,787 78	\$ 139,189 11
July 1 to September 30/41.....	745,200 46	173,155 23
October 1 to December 31/41.....	605,241 61	266,050 70
January 1 to March 31/42.....	514,122 21	403,453 31
	<u>\$2,259,352 06</u>	<u>\$ 981,848 35</u>
	69.7%	30.3%
	Telegrams	
April 1 to June 30/41.....	\$ 29,354 28	\$ 21,229 45
July 1 to September 30/41.....	47,719 57	37,736 67
October 1 to December 31/41.....	53,709 94	43,953 75
January 1 to March 31/42.....	53,664 25	36,124 33
	<u>\$ 184,448 04</u>	<u>\$ 139,044 20</u>
	57%	43%
	C.N.R.	C.P.R.
Total Payments.....	\$6,342,828 21	\$4,931,418 86
	56.3%	43.7%

Mr. NICHOLSON: As regards transportation you gave the percentage as 48·4 per cent.

Hon. Mr. POWER: It is 49·4 per cent—50·6 per cent as against 49·4 per cent.

The CHAIRMAN: Do you wish to interrogate the minister?

Mr. NICHOLSON: I should like to ask the minister something with regard to the policy of the department.

Hon. Mr. POWER: I am not very clear on the last policy, but I think I can remember it. They are all in our files.

I have here a memorandum of June 11, 1940, from the executive assistant, a copy of which I shall file if the committee will permit me to do so: It reads:—

As pointed out by the A.M.E.S. in his memorandum the attached file raises a question of policy.

I do not remember just what it was but I am advised that it was on a question of routing airplanes from the seaboard to Camp Borden and Trenton.

The question is whether instructions should be issued that the C.P.R. should, wherever possible, be given a share of the business of hauling aircraft to the various aerodromes.

Could a decision be given on the question of policy, please?

(Sgd) Terence Sheard,
Executive Assistant.

I have the reply here:—

Convenience of facilities and cost of shipment are of course the first considerations. After that, we should endeavor to allocate the business on about a 50/50 basis.

C.G.P. 11/6/40.

Since that time, speaking now purely from recollection, the parliamentary committee on War Expenditures by resolution expressed the desire that the war services departments should give a greater percentage to the C.N.R. than to the C.P.R., and I have some recollection, although it is rather vague, that the deputy minister questioned me as to whether he should follow that policy or not, and I believe that some time last summer I said: "Go ahead."

Mr. JACKMAN: That is this committee?

Hon. Mr. POWER: No; the Committee on War Expenditures last year. I said: "Go ahead and follow that as far as you can, always taking into consideration the efficiency of the service"; and it may be that as the result of that the figures balanced more towards the C.N.R. than the C.P.R. The only thing I have in writing is what I have read here. My deputy is out west and will not be back until tomorrow, when I will have to check with him. My understanding from the officers is—I do not remember exactly whether that is in the report of this committee—that they recommended splitting 65-35 in favor of the C.N.R.; that is subject to correction.

The CHAIRMAN: We did not, in our report.

Hon. Mr. POWER: I am speaking of the War Expenditures Committee, not yours.

Mr. DONNELLY: Did you ever hear of any instruction that the railway business should be divided 50-50?

Hon. Mr. POWER: No; but I have sat in this committee many years, and my impression is that we always had that in mind, during the time I was a member of this committee, to give an equal break as far as possible to both

railways. That seemed to be the policy that we were endeavoring to promulgate at that time.

Mr. CHAIRMAN: That seemed to have been a recognized and accepted principle at the time.

Hon. Mr. POWER: It seems to me that the matter was stated in the House by different railway ministers, off and on, that that should be the policy.

Mr. DONNELLY: It has been reported that instructions were sent out in 1938 that their business would be divided 50/50.

Hon. Mr. POWER: We did not exist then.

Mr. JACKMAN: I suppose when both railways were laying off men in 1933 the reason for going on a 50/50 basis would be to minimize unemployment.

Hon. Mr. POWER: At that time the government was advancing money to the C.P.R. and paying heavy deficits on account of the C.N.R.

Mr. HAZEN: I think the matter must have come prominently before the government in 1931, 1932 and 1933. I went down to the Library recently and noted that in 1933 the Canadian National-Canadian Pacific Act was passed, and the 50/50 basis must have been adopted then, only, I would think, after very careful consideration by the government, and that it was not any matter of hit and miss. The matter must have come fully before them before they decided on that ratio.

Hon. Mr. POWER: My view is that even before 1933 it was a kind of an unofficial policy; that is my understanding of it.

Mr. HAZEN: I do not understand the War Expenditures Committee making a recommendation like this.

Hon. Mr. POWER: Neither do I. Here is the memorandum. Do you want it read in the record?

Mr. HAZEN: Yes.

Hon. Mr. POWER: The memorandum is dated December 6, 1941, and is addressed to A.M.S., or the Air Member of Supply:—

I quote from the report of the War Expenditures Committee of the House of Commons, pages 584 and 585 as follows:—

Regarding war expenditures in connection with transportation, freight, express and telegraph service the departments concerned should carefully consider possible economies by the more extended use of the government-owned-and-controlled railway system.

I presume that due regard is given to this suggestion and would appreciate if you would advise me what steps have been taken to see that use is made of the government-owned-and-controlled railway system where such is possible.

(Sgd.) N. G. NORMAN,
Financial Adviser—B.C.A.T.P.

Then there is a minute to the D.S.A., or the Director of Supply and Administration:—

What is our present practice as regards division of traffic between C.P.R. and C.N.R.? My last recollection is of a 50/50 split between the two in respect of traffic available to both.

(Sgd.) S. G. TACKABERRY,
A/Cdre A.M.S.

8/12/41.

Mr. Sissons: That recommendation was put in after a very lengthy debate.

Mr. JACKMAN: Do you think that is an infringement of our jurisdiction? We are not recommending how to conduct their committee.

Mr. DONNELLY: The actuating principle with reference to the business of the two railways is service and cost.

Hon. Mr. POWER: So far as I am concerned if the government decides on a policy, we will follow it, provided we can get instructions.

Mr. HOLLYMAN: Cost does not enter into the transaction because the roads are all competitive when the traffic is moving to and from competitive points.

Mr. NICHOLSON: In these figures furnished by the minister I noticed that for the C.N.R. the figure for April 1 to June 30, 1941 is \$269,994.41 and for the C.P.R. \$409,904.69. Then for July 1 to September 30, 1941, the figure for the C.N.R. is \$537,675.61 and for the C.P.R. \$627,211.51. I notice a change in the percentage there. Is that due to an accident, or have you tried deliberately to give them a larger share?

Hon. Mr. POWER: That is personnel movement. Personnel movement is undertaken by the Air Member for Personnel; but I would not hesitate to say that after he checked his figures for a certain period he would say: "Let us bring this up and square it away as much as possible."

Mr. NICHOLSON: When the other cabinet ministers were here they were asked if they would give consideration to allowing the railways to compete on a service basis, withdrawing any instructions with regard to 50-50 distribution of business. Would the minister be good enough to indicate what the views of his branch of the service on that matter are?

Hon. Mr. POWER: I have told you what the policy of the government is in this regard. Providing we can get efficiency we are quite satisfied. Whatever policy the government indicates, we will follow that out; we are there as servants of the state.

The CHAIRMAN: Gentlemen, Mr. Power has an important meeting at 11 o'clock and unless there are further questions to proffer I think we should release him.

Mr. HANSON: I think he has given us all the information we require.

The CHAIRMAN: I think so too.

Hon. Mr. POWER: Mr. Hollyman is here, if you want to get any further details.

The CHAIRMAN: I think not.

Mr. NICHOLSON: I have one more question, Mr. Chairman; in connection with a point like Moncton, for example, where you have a very good train service; how do you distribute your business from that point?

Mr. HOLLYMAN: As far as freight and express traffic are concerned that all moves exclusively over Canadian National in and out of Moncton.

Mr. NICHOLSON: What about telegrams?

Mr. HOLLYMAN: I am not familiar with telegrams.

Mr. DONNELLY: Some of these arrangements seem rather ridiculous to us; for instance, we have a man going from Melville down to Halifax and we are told that he would travel from Melville which as you know is a Canadian National point over that railway, and that he would take the C.P.R. to Montreal from Winnipeg, and then the Canadian National from there down to Halifax. That seems ridiculous to us.

Hon. Mr. POWER: The present routings are made in accordance with government policy. I do not make government policy, I only see that it is carried out.

The CHAIRMAN: Thank you, Mr. Power.

(The committee continued its deliberations in camera.)

REPORT TO THE HOUSE

TUESDAY, June 2, 1942.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as a

THIRD REPORT

Your Committee notes with satisfaction the continued and material improvement in all branches of the transportation system.

Extension of the Trans-Canada Airways to provide service with Newfoundland and subsequently with the Yukon Territory is also viewed with pleasure by your Committee. In this regard, however, some concern is felt in that a competing company at present in control of extensive branch lines from coast to coast, may seek the right to operate a trans-Canada service. With any such suggestion the Committee is in disagreement.

In the opinion of your Committee there should be no departmental instructions as to the routing of traffic but every transportation company should be allowed to compete on its merits.

Your Committee recommends that standardized accounting practices be made applicable to all Canadian railways at the first opportune time.

A copy of the printed evidence taken is tabled herewith.

All of which is respectfully submitted.

J. P. HOWDEN,
Chairman.

